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CHAPTER 1: OVERVIEW

SECTION 1: INTRODUCTION TO THE FIELD OFFICE HANDBOOK

1.1 WELCOME TO THE FIELD OFFICE HANDBOOK

This handbook provides Agency staff with the tools needed to originate loans efficiently and effectively. Its goal is to help Loan Originators and Loan Approval Officials in Field Offices move applicants through the origination process smoothly, while making sure that basic legal and administrative requirements are met. The handbook:

- Describes loan processing policies and establishes procedures for originating Section 502 direct loans and Section 504 loans and grants;
- Provides policies and procedures for managing and disposing of Real Estate Owned (REO) properties; and
- Describes, in general terms, the role of the National Financial and Accounting Operations Center (NFAOC) and provides guidance for conducting servicing activities in which the Field Office may be involved.

The guidance provided by this handbook is intended to be consistent with all applicable laws, Executive Orders, and Departmental regulations, including other Agency regulations. Nothing contained in this handbook should be construed to supersede, rescind, or otherwise amend such laws, Executive Orders, and regulations.

1.2 USING THIS HANDBOOK

The handbook is organized to allow the reader to look up information on specific topics easily. New staff may want to read the handbook in its entirety, while more experienced staff may use it as a reference book. Several graphic tools and conventions have been used to make information easier to find and understand.

A. Handbook Symbols

- **References.** The book symbol directs the reader to additional information sources, such as laws, regulations, or instructions.

- **State Supplements.** State and local laws and the laws of Federally-recognized tribes may affect how Agency requirements are implemented. Topics commonly affected by such laws include the treatment of liens, construction requirements, and environmental policies. The United States symbol denotes subjects for which further instructions may be issued through State Supplements which will be filed in Appendix 7 or for which individual State laws are likely to be particularly relevant.

- **Civil rights.** The fair housing symbol highlights processing procedures with significant fair housing or civil rights implications.

- **Deadlines.** Time frames for completing required actions are underlined to make them easier to locate, for example: "within 7 days." Unless the text specifies business days, all references to days are in terms of calendar days.

- **Documentation.** The notepad symbol highlights key activities or information that must be carefully documented.

B. Citations and Text Boxes

- **Regulatory citations.** The regulation for the direct single family housing program is provided in 7 CFR Part 3550. The text of that regulation is provided in Appendix 1.

- **Form references.** All forms referenced in this handbook can be found in Appendix 2 and all letters can be found in Appendix 3. For non-Agency forms, the form numbers listed in this handbook are subject to change. Any successor form issued by the form's owner should be used.

- **Helpful hints.** Helpful hints, cautions or important facts are included in boxes throughout the text and shown with the string around the finger symbol.

Examples and exhibits. Text boxes labeled as examples or exhibits provide a specific illustration of a concept described in the text or provide additional detailed information. Exhibits are numbered in sequence, using the chapter number; for example, Exhibit 3-1 is the first exhibit in Chapter 3. Examples are used when the text box is inserted adjacent to the relevant text and is not referenced. Exhibits are used when the text refers to the text box.

C. Attachments and Appendices

- **Glossary and acronyms lists.** Key words and terms are defined in the glossary. A list of acronyms is also provided at the end of the handbook. The glossary and acronyms list can be found at the end of the handbook text.

- **Attachments.** Attachments at the end of each chapter contain technical information that is specific to the topics covered in the chapter. Attachments are referenced in sequence, using the chapter number and a letter, for example, Attachment 4-A is the first attachment in Chapter 4.

- **Appendices.** Appendices at the end of the handbook include forms and other reference materials that relate to multiple chapters.

D. Terminology

Because terminology may vary from State to State and change over time, this handbook uses certain standard terminology to provide consistency.

- **Agency.** The term "Agency" is used throughout this handbook to refer to the organizational unit within the United States Department of Agriculture (USDA) that is responsible for administration of the direct single family housing program.

- **Field Office.** Because the number of offices and the nature of the work conducted in each office may vary from State to State, the term "Field Office" is used throughout this handbook to refer to the office that is originating the loan.

- **Loan Originator and Loan Approval Official.** "Loan Originator" refers to a person who is working directly with an applicant and conducting the basic underwriting analysis. "Loan Approval Official" is used whenever someone other than the Loan Originator must approve an action. Unless otherwise specified, each State Director may determine which actions may be approved at the Field Office and which must be approved at the State Office.

- **Field Staff and Approval Official.** These terms refer to a person who is completing tasks for purposes other than originating a loan and is located in the field.

- **NFAOC or Servicing Center.** These terms are used to refer to individuals in the National Financial and Accounting Operations Center, previously known as the Centralized Servicing Center.

- **Applicant.** The term “applicant” refers to one or more individuals who have applied for Agency assistance.

- **Borrower.** The term “borrower” refers to one or more individuals who are receiving Agency assistance.

SECTION 2: OVERVIEW OF THE DIRECT SINGLE FAMILY HOUSING PROGRAM

1.3 GOALS OF THE DIRECT SINGLE FAMILY HOUSING PROGRAM

The purpose of the direct single family housing program is to provide low- and very low-income people the opportunity to own adequate, modest, decent, safe, and sanitary homes in rural areas. In providing this service, the Agency strives to meet several goals.

- **Customer service.** The Agency is committed to providing customer-friendly, streamlined service.

- **Partnerships.** Working with partners, such as private lenders, nonprofit organizations, and State and local agencies, can enhance the Agency's ability to serve more borrowers.

- **Effective use of resources.** As a publicly-funded program, the direct single family housing program must use tax dollars efficiently. The Agency aims to minimize administrative costs, underwrite loans responsibly, and leverage funding with private sources of credit to the extent possible.

1.4 SECTION 502 -- AN OVERVIEW

A. Program Loans

The Section 502 direct loan program is intended to provide very low- and low-income people with the opportunity to acquire, build, rehabilitate, improve or relocate dwellings in rural areas. The standard term for a Section 502 loan is 33 years. However, loans may be made for a shorter term, and in certain cases for 38 years. Each loan is made at a note rate established by the Agency under § 501 of the Housing Act of 1949, as amended, and outlined in RD Instruction 440.1. Payment subsidies are available to some borrowers to reduce monthly loan payments. In summary, to be eligible for a Section 502 loan, applicants must:

- Have an adjusted income that is at or below the applicable low-income limit at loan approval, (except for assumed loans or loans to purchase Real Estate Owned (REO) property).

- Have an adjusted income that is at or below the applicable moderate-income limit for assumed loans or loans to purchase an REO property.

- Be unable to obtain sufficient credit from another source;
- Agree to personally occupy the dwelling;
- Meet citizenship or eligible noncitizen requirements;
- Have the legal capacity to incur a loan obligation and not be suspended or debarred from participation in Federal programs; and
- Demonstrate both the willingness and ability to repay the loan.

Detailed procedures for processing Section 502 loans are provided in Chapter 2 through Chapter 11.

B. Nonprogram Loans

The Agency may provide credit on nonprogram terms to expedite the assumption of an existing program loan or purchase of an REO property by a borrower who is not eligible for the Section 502 program. Nonprogram loans are originated only when it is in the best interest of the Government. Nonprogram loans are discussed in detail in Chapter 11.

C. Demonstration Programs (7 CFR 3550.7)

The Agency may implement Demonstration Programs to meet the overall objectives of the Section 502 program which are outside the guidelines of this handbook or published regulations. Demonstration Programs may be initiated internally or may be required by legislation. The Rural Housing Demonstration Program is discussed in Appendix 9.

1.5 SECTION 504 -- AN OVERVIEW

The Section 504 direct loan and grant program is intended to provide funds to homeowners who cannot obtain other credit to repair and rehabilitate their properties, or correct health and safety hazards. To be eligible, the applicant must have adjusted income that is at or below the applicable very low-income limit and meet other eligibility requirements similar to those for Section 502 loans.

Detailed guidance on originating Section 504 loans and grants is provided in Chapter 12.

A. Section 504 Grants

Grant funds may be used only to make repairs and improvements that will remove identified health and safety hazards or to repair or remodel dwellings to make them accessible and useable for household members with disabilities. Grants are available only to eligible applicants who are 62 years of age or older who cannot afford a loan. Recipients may receive multiple grants, up to a lifetime maximum of $7,500.

B. Section 504 Loans

Loan funds may be used to make general repairs and improvements to properties, and to remove health and safety hazards. Applicants may obtain multiple Section 504 loans, but the sum of the outstanding balance on all Section 504 loans can not exceed $20,000. The loans have a term of 20 years and an interest rate of 1 percent.

1.6 LOAN SERVICING

Once loans are closed and the final disbursement has been made, they are serviced by NFAOC, located in St. Louis, Missouri. NFAOC handles payments from the borrower, maintains escrow accounts for taxes and insurance, and provides counseling to past-due borrowers. When necessary, NFAOC initiates action to liquidate borrower accounts. Borrowers who are unable to repay their loans may be eligible for a variety of special servicing actions such as delinquency workout agreements and payment moratoriums. Field Offices will be asked to assist with servicing actions when a local presence is needed. Field Office servicing functions are described in Chapter 13.

1.7 SECTION 306C WATER AND WASTE DISPOSAL (WWD) GRANTS TO INDIVIDUALS

Applicants may also be eligible to receive a Section 306C WWD grant if the applicant is a resident of a colonia located in a rural area and meets the other program requirements. The objective of this program is to facilitate the use of community and/or waste disposal systems. Appendix 6 provides information on the Section 306C WWD program.

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SECTION 3: GENERAL PROGRAM REQUIREMENTS

1.8 CIVIL RIGHTS [7 CFR 3550.3]

The Agency will administer its programs fairly and in accordance with both the letter and the spirit of all equal opportunity and fair housing legislation and applicable Executive Orders. The civil rights compliance requirements for the Agency are contained in RD Instruction 1901-E. Exhibit 1-1 lists the applicable Federal laws and executive orders and highlights key aspects of these requirements.

Exhibit 1-1

Major Civil Rights Laws Affecting the Direct Single Family Loan Program

- **Equal Credit Opportunity Act (ECOA).** Prohibits discrimination in the extension of credit on the basis of race, color, religion, national origin, sex, marital status, age, income from public assistance and exercise of rights under the Consumer Protection Act.
- **Title VI of the Civil Rights Act of 1964.** Prohibits discrimination in a Federally-assisted program on the basis of race, color, and national origin.
- **Title VIII of the Civil Rights Act of 1968** (also known as the Fair Housing Act of 1988, as amended). Prohibits discrimination in the sale, rental or financing of housing on the basis of race, color, religion, sex, national origin, familial status, or disability.
- **Section 504 of the Rehabilitation Act of 1973.** Prohibits discrimination in a Federally-conducted program on the basis of disability.
- **Age Discrimination Act of 1975.** Prohibits discrimination in a Federally-assisted program on the basis of age.
- **Executive Order 11063 as Amended by 12259.** Prohibits discrimination in housing or residential property financing to any Federal-assisted activity against individuals on the basis of race, color, religion, sex, or national origin.
- **Executive Order 11246.** Nondiscrimination in employment by construction contractors (and subcontractors) receiving Federally-assisted construction contracts in excess of $10,000. It provides for equal employment opportunity without regard to race, color, religion, sex, and national origin.
- **Executive Order 13166.** Prohibits discrimination on the basis of national origin, and ensures programs normally provided in English are accessible to persons with Limited English Proficiency (LEP).

A. Nondiscrimination

The various civil rights laws prohibit the denial of loans, grants, services, and benefits provided under the Section 502 and 504 programs to any person based upon race, color, national origin, sex, religion, marital status, familial status, age, physical or mental disability, source of income, or because the applicant has, in good faith, exercised any right under the Consumer Credit Protection Act (15 U.S.C. 1601). Discrimination in employment practices also is prohibited.

Effective management and consistent procedures are good business practices that help ensure that all applicants are treated fairly. Poor program implementation, whether or not discrimination is intended, has possible civil rights consequences.

Key Civil Rights Issues for Loan Origination

- ☐ Access
- ☐ Consistency and fairness of treatment
- ☐ Disparate impacts -- intended or unintended
- ☐ Record keeping

In the loan origination process, attention to consistent procedures is especially important in several key areas, which are listed below.

- **Outreach.** Information about the availability of the program and how to apply must be broadly disseminated and the extent of the information, assistance, and courtesy extended to those who make inquiries must be consistent.

- **Application-taking procedures.** Application-taking procedures must be fair and accessible to all potential applicants.

- **Determining eligibility.** Loan Originators must use equal rigor for all applicants when verifying income, conducting credit checks, and allowing applicants to clarify information.

- **Making exceptions.** Standards for offering exceptions must be applied consistently.

- **Loan terms and subsidies.** Opportunities for subsidies and favorable loan terms must be made available consistently.

- **Hearings and appeals.** Avenues for remedies when problems arise must be accessible to all applicants.

B. Reasonable Accommodations for Persons with Disabilities

The Agency must make reasonable accommodations to permit persons with disabilities to apply for and benefit from Agency programs. Reasonable accommodations may include providing facilities that are physically accessible so that all people can come to Agency offices, and effective communication and outreach tools so that all applicants can get good program information (for example, a Telecommunications Device for the Deaf (TDD)).

1.9 REVIEW AND APPEALS [7 CFR 3550.4]

A. Adverse Decisions

Decisions that are not made in favor of a program participant (applicant or borrower) are known as adverse decisions. Adverse decisions include: (1) administrative actions taken by Agency officials; and (2) the Agency's failure to take required actions within time frames specified in statutes or regulations, or within a reasonable time if no deadline is specified. Adverse decisions must be based upon 7 CFR Part 3550 (Appendix 1) and the administrative guidance contained in this handbook. If a Field Office is taking an adverse action on a case that is also under the jurisdiction of NFAOC, the Field Office should first consult with NFAOC. Handbook Letter 15 (3550), Standardized Adverse Decision Letter, will be used for all adverse decisions unless another format is prescribed in this handbook. Exhibit 1-2 provides a sample of an adverse decision letter.

7 CFR Part 11 is the National Appeals Division (NAD) regulation and provides procedures that both Agency officials and program participants must follow when an adverse decision is appealed.

B. State Director Responsibilities

State Directors should issue a State Supplement providing guidance for processing appeal and mediation requests. The guidance should include an attachment outlining the mediation provider(s) specific to their State and identifying an Alternative Dispute Resolution (ADR) Coordinator.

C. ADR Coordinator Responsibilities

The ADR Coordinator is responsible for:

- Establishing a source/vendor list of Community-Based Mediation Centers (CBMCs) and/or Alternative Mediation Service Providers, per RD Instruction 1940-E, 1940.206 (c)(1), if the State does not have a USDA-funded mediation program. The list will be maintained annually in alphabetical order and the providers are selected in sequential order. States will need to maintain documentation to ensure that mediation providers receive an equal number of referrals. The list should include the name, contact information, and cost of each mediator; the list cannot include arbitrators. The Farm Service Agency (FSA) should be able to provide the ADR Coordinator with a list of acceptable mediation sources in the State. Other contacts include the National Association of Conflict Resolution or State bar association. When making contacts with these sources, make sure the Agency requests the services of a mediator and not an arbitrator. A mediator resolves disputes by negotiating a resolution through mutual agreement. An arbitrator resolves disputes through hearing both parties and then rendering a binding decision and may not be used.

- Verifying that the request for mediation was submitted within 30 days of receipt of the adverse action. If so, issuing Attachment 1-D to the program participant. If the State does not have a USDA-funded mediation program, the program participant will have 10 days to select a mediation service provider. If a selection is not made within the allotted time, issuing Attachment 1-F to notify the program participant of the expiration to select a mediation service provider.

- Issuing Attachment 1-E to initiate mediation services to the selected provider.

- Ensuring the meditation is conducted within 45 days of receipt of the request.

- Issuing Attachment 1-G to the program participant if the mediation did not resolve the dispute.

- Communicating with all parties involved and ensuring they have a copy of the mediation documentation.

The ADR Coordinator is not responsible for attending mediations and hearings; that responsibility belongs to the Agency representative.

D. Agency Representative Responsibilities

The Loan Approval Official who rendered the adverse decision is typically the Agency representative; however, another appropriate staff member may represent the Agency. The Agency representative is responsible for:

- Furnishing documentation that supports the adverse decision. Since the documentation is based on the adverse decision letter, Loan Approval Officials need to ensure that adverse decision letters list all the reasons for the denial and contain a brief narrative, the applicable program provisions, and pertinent facts.

    - If the application is denied due to a lack of repayment ability, the supporting documentation should include such items as a detailed analysis showing the income calculations along with all the relevant income verifications and documentation that compensating factors were considered.

    - If the application is denied due to adverse credit, the supporting documentation should include such items as a fully completed and signed Form RD 1944-61, Credit History Worksheet; and the applicant's written explanation for derogatory credit.

- Representing the Agency in mediations and hearings. This may include a NFAOC face-to-face hearing involving a servicing matter where the NFAOC Appeals Coordinator requested the State Director to appoint a Field Staff to attend the hearing and represent NFAOC. The NFAOC Appeals Coordinator will provide sufficient documentation and phone resources to the person selected by the State Director to adequately represent the Agency in the case.

- Implementing the mediation/NAD decision within 30 days after the effective date of notice of the final determination.

Exhibit 1-2

Sample Adverse Decision Letter-Credit

r. and Mrs. John Doe
1 Main Street
Anytown, Anywhere 01234

Re: Application for $154,000 Direct
Single Family Housing Loan

Dear Mr. & Mrs. Doe,

Thank you for the opportunity to consider your request for Rural Development assistance. In reviewing your request, we considered all information submitted to the Agency and the regulations that govern the assistance for which you applied. After careful review, we regret to inform you that we were unable to take favorable action on your request. The specific reasons for our decision are as follows:

Applicants must demonstrate the ability and willingness to meet debt obligations. 7 CFR 3550.53(h) requires that an applicant must have an acceptable credit history to obtain program assistance. The specific regulation that applies:

(1)(ii). Payments on any account which was delinquent for more than 30 days on two or more occasions within a 12-month period.
(1)(vii). Outstanding collections with a record of irregular payment with no satisfactory arrangements for repayment, or collection accounts that were paid in full within the last six months.

The following accounts are indicators of unacceptable credit:

Student Loan	Account #1234566	collection	$300
Walmart	Account #1234569	delinquent	3x late 1/2017, 2/2017, 3/2017
Verizon	Account #5461313	collection	$600

Per our conversation on 1/1/2017, there were no extenuating circumstances relating to the adverse credit history.

If one of the above reasons included an unacceptable credit history, please note that a tri-merge credit report was obtained from Equifax Mortgage Solutions, 815 East Gate, Suite 102, Mount Laurel, NJ 08054; telephone (800) 333-0037. You may obtain a free copy of your credit report from Equifax and dispute the accuracy or completeness of the report directly to Equifax. While the report was provided by Equifax, the decision to deny your request for assistance was made by this Agency and not Equifax.

If you believe our decision is incorrect, or the facts used in this case are in error, you may pursue your rights to challenge our decision. Please see the attached for your rights.

Sincerely,

Attachment

1.10 AGENCY DECISIONS

A. Informal Administrative Review

When an Agency official makes a decision that will adversely affect a program participant, the participant is entitled to an opportunity for a separate informal meeting with a decision maker or next level supervisor. The Agency official must give the program participant notice of their right to this meeting no later than 10 days after the date of adverse decision. If the meeting does not result in a resolution of the matter, Attachment 1-A, Informal Administration Review, will be sent within 7 days of the meeting to notify the program participant of their rights to an administrative appeal.

B. Appealable Decisions

Attachment 1-B will be provided to the participant no later than 10 days after the adverse decision, which includes rights to seek a mediation with the Alternative Dispute Resolution (ADR) and/or request a hearing with National Appeals Division (NAD).

In cases where denial of assistance is based upon both appealable and non-appealable actions, the denial of assistance is not appealable. Attachment 1-C will be used in these cases and will include all reasons for the adverse decision.

C. Non-Appealable Decisions

Certain decisions made by the Agency cannot be appealed. In these cases, the participant is still offered an opportunity for an informal administrative review; however, appeal rights to NAD and mediation are not offered. The participant will be informed no later than 10 days after the adverse decision using Attachment 1-C, Non-Appealable Decision, which provides an opportunity to request an informal administrative review and/or NAD request to review the accuracy of the Agency's decision. Decisions that cannot be appealed include:

- Decisions made by parties outside the Agency, even when these decisions are used as a basis for Agency decisions (such as when an applicant disagrees with a private lender's decision not to provide credit for a leveraged loan);

- Interest rates set by the Agency's procedures, unless the participant alleges that an incorrect interest rate was applied;

- An official's refusal to request an administrative waiver under the provisions of Paragraph 1.12 of this handbook, or a waiver authorized by any applicable regulation;
- Denials of assistance due to lack of funds;
- Denials of Section 504 grants to applicants under the age of 62;
- Rural area designations; and
- Denials due to income calculations above the applicable adjusted income limit (low-income at the time of eligibility or moderate-income at the time of loan closing).

1.11 PARTICIPANT RIGHTS

The program participant can request all appeal options below within 30 days of receipt of the adverse action. The requests for an appeal can be submitted simultaneously; however; the options below should be performed in order. If an applicant chooses to skip any of the options below, doing so will waive their right to the previous option.

The program participant has the right to a face-to-face hearing in the participant's State of residence. The program participant also has the right to request that the hearing be handled by teleconference.

A. Informal Administrative Review

The program participant must make a request for an informal review in writing, and the request will be retained in the participant's case file. The informal administrative review can be conducted by the decision maker or representative of the Agency through a telephone or face-to-face meeting at the Agency's discretion. The purpose of the informal administrative review is to further explain the Agency's reasons for the adverse decision, listen to why the participant feels the decision may be incorrect, and obtain any further information from the participant to support their request. The review must be completed within 45 days of the request. The participant will be notified of the outcome in writing using Attachment 1-A. The State Director may require that the decision be reviewed by the next-level supervisor or other designated Rural Development official prior to notifying the participant of the decision.

B. Mediation

Adverse decisions which are appealable to NAD also require that the participant be given the opportunity to seek mediation prior to conducting a hearing with NAD. The purpose of mediation is to resolve disputes through the use of a neutral mediator. Mediation must be completed within 45 days after the case is referred to the mediation source, unless the complexity of the case warrants a longer time frame and all parties agree to a specific time frame. A mediator will generally conduct a teleconference between the parties prior to accepting a case to determine if the case can be mediated.

There is generally a cost associated with participation in mediation. The cost is contingent upon the service provider. When there are costs, they will be shared equally between the Agency and the program participant, if Agency funds are available. Where Agency program funds are not available, the Agency will participate in mediation if requested by the program participant; however, the program participant will be notified in advance of the portion of the cost the Agency will pay (if any) and their estimated cost for this service. The State Director will ensure that all participants requesting mediation in their State are treated consistently and pay the same percentage of the cost toward this service. The State Director may also consent to pay a larger percentage (up to 100 percent) of the cost of mediation for participants with incomes below the federal poverty level. The Agency will issue Attachments 1-E and 1-F, notifying the participant a mediation source selected and cost of such service. If State funds are not available, the State will request PLCE “A” funds from the National Office through the survey tool, while utilizing PAC codes provided in RD Instruction 2024-A Exhibit D. The State will provide a list of acceptable mediators to the participant and request the participant to select or provide an additional acceptable provider within 10 days.

If the program participant does not provide the name of a mediation provider within 10 days, Attachment 1-F is used to notify the program participant of expiration and their request for mediation will be considered withdrawn. Withdrawal or cancellation of a mediation does not extinguish the participant’s right to request an appeal with NAD. There are three types of mediation services as follows:

- **USDA-funded mediation program**

Many States have a mediation program that is annually certified by USDA. These programs are funded, in part, by USDA, and were established primarily to mediate cases originating from the Farm Service Agency (FSA). In States with a USDA-funded mediation program, program participants who are provided appeal rights will be generally referred to the USDA-funded mediation program. In States where alternative mediation sources are readily available at a lower cost than the USDA-funded mediation program, the State will follow the guidance for States with a CBMC or States without a USDA-funded mediation program, and include the USDA mediation program on the list of acceptable providers.

- **Community-Based Mediation Center**

A CBMC is a nonprofit, public entity operating under the guidance of a governing board. Its goal is to provide an alternative to the judicial system by the use of trained mediators located in the geographical area served. The CBMC provides mediation services to clients regardless of their ability to pay. In States without a USDA-funded State mediation program, the CBMC is an option. Customers with appeal rights who request mediation can be referred to the CBMC.

- **Alternative mediation service providers**

In States without a USDA-funded mediation program or access to a CBMC, Agency officials will provide a list of alternative mediation service providers. If there is a significant variation in cost between service providers, this option will not be used.

C. Appeal

Participants who wish to appeal an adverse decision must submit a written request to NAD within 30 days of receiving notice of an adverse decision. The request must be signed by the participant and include: (1) a copy of the adverse decision to be appealed; and (2) a brief statement describing why the participant believes the decision is wrong.

Upon receiving a notice from NAD that an appeal has been filed, the Field Office will promptly provide NAD with a copy of the Agency record, specific references in 7 CFR Part 3550 to support the adverse decision, and any other pertinent information. A copy will also be provided to the program participant.

NAD will notify the participant and the Agency once it has made a final determination. If NAD reverses the Agency's decision, the next loan processing action must take place within 30 days after the effective date of the notice; unless the Agency requests a review of the case by the Director of NAD. For more guidance on the Director review and other information regarding appeals, refer to 7 CFR Part 11.

1.12 NAD HEARING PREPARATION

Providing Agency record means all the materials maintained by an Agency related to an adverse decision, including all materials prepared or reviewed by the Agency during its consideration and decision making process related to the adverse decision. If requested by the applicant prior to the hearing, a copy of such Agency record shall be provided to the appellant by the Agency within 10 days of receipt of the request by the Agency.

The Administrative Judge shall set a reasonable deadline for submission of the following documents:

(A.) By the appellant;

1. A short statement of why the decision is wrong;
2. A copy of any document not in the Agency record that the appellant anticipates introducing at the hearing; and
3. A list of anticipated witnesses and brief descriptions of the evidence such witnesses will offer.

(B.) By the Agency:

1. A copy of the adverse decision challenged by the appellant;
2. A written explanation of the Agency's position, including the regulatory or statutory basis therefor;
3. A copy of any document not in the Agency record that the Agency anticipates introducing at the hearing; and
4. A list of anticipated witnesses and brief descriptions of the evidence such witnesses will offer.

Not less than 14 days prior to the hearing, the National Appeals Division must provide the appellant, the authorized representative, and the Agency a notice of hearing specifying the date, time, and place of the hearing. The hearing will be held in the State of residence of the appellant, as determined by the Administrative Judge, or at a location that is otherwise convenient to the appellant, the Agency, and NAD. The notice also shall notify all parties of the right to obtain an official record of the hearing.

A. Pre-Hearing Conference

Whenever appropriate, the Administrative Judge shall hold a pre-hearing conference in order to attempt to resolve the dispute or to narrow the issues involved. A pre-hearing conference shall be held by telephone unless the Administrative Judge and all parties agree to hold such conference in person.

B. Post-Hearing Procedure

The Administrative Judge will leave the hearing record open after the hearing for 10 days, to allow the submission of information by the appellant or the Agency. The Agency representative is responsible to respond to new facts, information, arguments, or evidence presented or raised at the hearing. Any new information will be added to the hearing record and sent to the other party or parties by the submitter of the information.

C. Timing of Issuance of Determination

The Administrative Judge will issue a notice of the determination on the appeal to the named appellant, the authorized representative, and the Agency not later than 30 days after a hearing or the closing date of the hearing record in cases in which the Administrative Judge receives additional evidence from the Agency or appellant after a hearing. In the case of a record review, the Administrative Judge will issue a notice of determination within 45 days of receipt of the appellant's request for a record review.

D. Requests for a Director Review

The Loan Approval Official is responsible for filing a request for a Directors review on reversed Agency decisions that have merit and are not favorable to the Agency. The SFH Administrator or a person acting in such capacity can submit a written request for a Directors review within 15 days after receipt of Administrative Judge’s decision. The request should include specific reasons why the Agency believes the determination is wrong, including citations of statutes or regulations that the Agency believes the determination violates. In consideration of the limited timeframe, the Agency official should send a request immediately to the SFH State Office, which will be forward to the Single Family Housing Direct Loan Division in the National Office for review.

1. The program participant can submit a written request for a Director review within 30 days after receipt of Administrative Judge’s decision. The Director will review the Administrative Judge’s decision to determine if the program participant is entitled. The request should include specific reasons why the appellant believes the determination is wrong.

2. A copy of a request for a Director review will be provided simultaneously by the submitter to each party to the appeal. The Director will determine whether the decision of the Administrative Judge is supported by substantial evidence. Based on such review, the Director will issue a final determination notice that upholds, reverses, or modifies the determination of the Administrative Judge. The Agency shall implement the final determination no later than 30 days after the effective date of the notice of the final determination.
3. Reconsideration of a determination of the Director may be requested by the appellant or the Agency within 10 days of receipt of the determination.

1.13 CONFLICT OF INTEREST [7 CFR 3550.9]

All employees must strive to maintain the highest levels of honesty, integrity, and impartiality in conducting their activities on behalf of the Agency. The Agency's requirements for handling assistance to employees, relatives and associates are described in RD Instruction 1900-D. State Office, NFAOC, and National Office employee relationships are reviewed by the State Director who will obtain the Administrator's written concurrence for application processing. To reduce the potential for conflicts of interest, all processing, approval, servicing, or review activity must be conducted by Agency employees who:

- Are not the recipient (applicant or borrower), a recipient's family member, or a close known relative and/or associates of the recipient;
- Do not have an immediate working relationship with the recipient, the Agency employee related to the recipient, or the Agency employee who would normally conduct the activity; and
- Do not have a business or close personal association with the recipient.

A. Applicant Disclosure

Applicants must disclose any known relationship or association with Agency employees when they apply for assistance through the Agency.

B. Agency Employee Disclosure

Agency employees must disclose any known relationship or association with a recipient, regardless of whether the relationship is known to others. Loan Originators should notify a supervisor after the application is accepted but before any eligibility determination is made.

C. Disposition of REO Properties

Agency employees and members of their families are precluded from purchasing REO property, assumptions from Agency borrowers, or security property sold at a foreclosure sale. Closing agents and members of their families are precluded from purchasing properties in which they have been professionally involved.

1.14 OTHER FEDERAL REQUIREMENTS

A. Environmental Requirements [7 CFR 3550.5]

The Agency considers environmental quality equally with economic, social and other factors in its program development and decision-making processes. Both the Loan Originator and the Loan Approval Official are responsible for effectively integrating Agency environmental policies and procedures with loan and grant origination and servicing activities. Agency environmental policies and procedures and historic preservation requirements can be found in RD Instruction 1970 series "Environmental". Agency-assisted properties also must meet the lead-based paint requirements contained in Exhibit H of RD Instruction 1924-A. Resolution of conflicts or significant differences between Agency environmental regulations and State or local environmental laws requires prior consultation with the appropriate State Environmental Coordinator and, if necessary, National Office environmental staff.

For existing housing, a categorical exclusion may be completed if no resources are adversely affected; the property is not in a historic district, is not classified as a historic property, or is not considered culturally significant; and there is no flood disturbance. For new construction, the same level of review is required. In addition, any time ground is being broken, there is a potential to uncover historic resources, therefore additional consultation with the State Historic Preservation Officer (SHPO) and, as applicable, the Tribal Historic Preservation Officer (THPO) may be necessary. In states where a programmatic agreement exists between the SHPO and THPO, consultation may only be necessary with one party.

New construction projects must also consider the effect of cumulative impact. This occurs when a project may develop over time and impact a larger number of prospective applicants or acreage. Many times, Rural Development funds are not used to purchase the land, but the scope of the project includes Rural Development financing for the purchase of the developed lots. In accordance with 7 CFR part 1970, 1970.5(a)(4), "The Agency may act as either a lead Agency or a cooperating Agency in the preparation of an environmental review document. If the Agency acts as a cooperating Agency, the Agency will fulfill the cooperating Agency responsibilities outlined in 40 CFR 1501.6".

As an example, when funding is obtained for a multiple unit project, and the development work is provided by another Agency (often HUD), that Agency will take the lead to prepare the environmental review, but Rural Development will be a cooperating Agency so that the review for both programs' requirements are satisfied in the initial environmental analysis.

Example: A Self Help group is proposing to build 8 homes. They obtain Self Help Opportunity Program (SHOP) funds from Housing and Urban Development (HUD) to purchase and develop the site. Prior to funding approval, HUD must complete an environmental analysis. Because the scope of the project includes future Rural Development (RD) funding, the Self Help group must notify HUD of Rural Development's involvement, and request that RD be considered a cooperating agency so that the review can be completed and accepted by both agencies prior to the start of development activities.

In addition, in accordance with RD Instruction 1970-B, Exhibit C, no construction activities may begin until the Agency completes its environmental review process.

B. Construction Standards

Sites and dwellings developed or rehabilitated with Section 502 funds must meet the construction standards outlined in RD Instructions 1924-A and 1924-C. Existing dwellings must be decent, safe and sanitary and meet all applicable State and local codes.

C. Administrative Requirements

Agency employees must comply with Agency and Departmental administrative requirements.

1. Procurement

Goods and services procured to support Agency activities such as appraisals, inspections, broker services, and property management services must conform with the policies and procedures of RD Instruction 2024-A.

2. File Management

Files and other Agency records must be maintained in accordance with RD Instruction 2033-A.

3. Handling Funds

Funds received in the Field Office that are not part of a borrower's regular installment, for example, credit report fees or appraisal fees are forwarded to NFAOC using Form RD 3550-17, Fund Transmittal Report. If a borrower did not receive a billing statement, Field Staff can submit the payment using Form RD 3550-27, Substitute Payment Coupon.

1.15 EXCEPTION AUTHORITY [7 CFR 3550.8]

Exceptions to any requirement of this handbook or 7 CFR Part 3550 can be approved in individual cases by the Administrator or designee if application of the requirement or failure to take action would adversely affect the Government's interest. Any exception must be consistent with the authorizing statute and other applicable laws.

Requests for exceptions are submitted to the Administrator or designee through the Deputy Administrator, Single Family Housing and may be initiated by the State Director; the Deputy Administrator, Single Family Housing; the Deputy Administrator, NFAOC; or the Director, Single Family Housing Direct Loan Division.

The exception request must provide clear and convincing evidence of the need for the exception. At a minimum the request must include:

* A full explanation of the circumstances, including an explanation of the adverse effect on the Government's interest;

* A discussion of proposed alternatives considered; and

* A discussion of how the adverse effect will be eliminated or minimized if the exception is granted.

Requests for exceptions regarding architectural and engineering, environmental, or civil rights issues must also include the review and comments of the applicable State Office Technical Staff. The Deputy Administrator, Single Family Housing will coordinate these exception requests with the applicable National Office technical staff prior to submission to the Administrator.

ATTACHMENT 1-A

INFORMAL ADMINISTRATIVE REVIEW

(DATE)

We appreciated the opportunity to review the facts relative to your [request for assistance, or reduction or termination of benefits, or foreclosure]. We regret the outcome did not grant the assistance you requested [or will terminate or reduce the assistance you are currently receiving, or will give you relief from foreclosure].

If you believe that facts used in this case are in error, you may pursue the alternative options listed in the attached adverse decision letter within 30 days of receipt of this letter.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Attachment (adverse decision letter)

Copies for: State and/or National Office Program Director
NFAOC for SFH servicing cases

ATTACHMENT 1-B

AN APPEALABLE ADVERSE DECISION

(DATE)

The described action in the attached letter [did not grant you the assistance you requested or will terminate or reduce the assistance you are currently receiving]. If you believe this decision or the facts used in this case are in error, you may pursue any or all of the following three options below. All three options may be requested simultaneously and must be requested in writing within **30 days** from the date adverse decision letter is received. If all options are requested and a resolution is reached the next available option can be canceled; however; if an option is skipped you will automatically waive the right to the previous option.

Option 1 - Request an Informal Administrative Review

You may request an Agency official review of this determination by filing a written request no later than 30 days after you receive this notice. If you request a review reconsideration, you have the right to an informal hearing which you or your representative may attend either personally or by telephone. If you choose to seek reconsideration, you may later appeal the determination to the National Appeals Division. To request reconsideration, write to the following address and explain why you believe this determination is erroneous. The address of the Field Office: *(Insert applicable address.)*

Option 2 - Request Mediation (Alternative Dispute Resolution)

Mediation is available as part of Rural Development's informal appeal process. Mediation may enable us to narrow the issues and resolve the matter by mutual agreement. If your state does not have a participating USDA-funded mediation program, you may have to pay all or part of the cost of mediation. If you request mediation, the continuation of the time frame in which you may request an appeal stops. When mediation closes, the clock restarts and you will have the balance of the days remaining in that period to request an appeal. To request mediation, you must submit your written request no later than 30 days after you receive this notice. To request mediation, write to the RD State Director at the following address:

- *(Insert applicable address.)*[Rural Development State Director]

Option 3 - Request an Appeal Hearing to the National Appeals Division (NAD)

You may appeal this determination to NAD by filing a written request no later than 30 days after you receive this notice in accordance with the NAD Appeal procedures found at 7 CFR Part 11. If you appeal to NAD, you have the right to a hearing which you or your representative may attend. Once a hearing with NAD begins, you waive any rights you might have to reconsideration and mediation. To appeal, you must write to NAD at the following address, explain why you believe this determination is erroneous, and provide a copy to RD. You must personally sign your written appeal to NAD and include a copy of this letter or file an appeal online at the following website http://www.nad.usda.gov/app_appeal.html:

[NAD Assistant Director Address] [Rural Development State Director]

If you do not timely exercise one of the preceding options, this shall be the final administrative determination with respect to this matter in accordance with the regulations at 7 CFR Part 11.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit aplicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Attachment (adverse decision letter)

Copies for: State and/or National Office Program Director

NFAOC for SFH servicing cases

ATTACHMENT 1-C

AN ADVERSE DECISION THAT CANNOT BE APPEALED

The decision described in the attached letter did not grant you the assistance you requested or will terminate or reduce the assistance you are currently receiving. If you believe that this decision is erroneous, you have the following options.

Option 1 - Request an Informal Administrative Review

You may request an Agency official review this determination by filing a written request no later than 30 days after you receive this notice. If you request reconsideration, you have the right to an informal hearing which you or your representative may attend either personally or by telephone. If you choose to seek reconsideration, you may later appeal the determination to the National Appeals Division. To request reconsideration, write to me at the following address and explain why you believe this determination is erroneous. The address of the Field Office:
(Insert applicable address.)

Option 2 - Request an Appeal Hearing to the National Appeals Division (NAD)

You may request an appeal for the review of accuracy of our findings to NAD by filing a written request no later than 30 days after you receive this notice in accordance with the NAD Appeal procedures found at 7 CFR Part 11. If you appeal to NAD, you have the right to a hearing which you or your representative may attend. Once a hearing with NAD begins, you waive any rights you might have to reconsideration and mediation. To appeal, you must write to NAD at the following address, explain why you believe this determination is erroneous, and provide a copy to RD. You must personally sign your written appeal to NAD and include a copy of this letter or file an appeal online at the following website http://www.nad.usda.gov/app_appeal.html:

[NAD Assistant Director Address] [Rural Development State Director]

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade

Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Attachment (adverse decision letter)

Copies for: State and/or National Office Program Director

NFAOC for SFH servicing cases

ATTACHMENT 1-D

NOTIFICATION TO APPLICANTS OR BORROWERS OF THE ASSIGNMENT OF THEIR CASE TO A MEDIATION SERVICE PROVIDER

DATE:

TO: [Program Participant]

FROM: Rural Development State Director

SUBJECT: Request for Mediation Services

This replies to your request for the mediation of your adverse decision. Your request has been referred to a [USDA-funded State mediation program] [Community-Based Mediation Center] or [you must select from the attached list of certified mediation providers].

As indicated in our adverse decision letter, there may be a cost for the mediation. The following is an estimate, but you will be advised by the mediation service provider if there will be a cost. Rural Development policy is to pay 50 percent of the reasonable cost for mediation.

$_____USDA-funded State mediation program [and address]

$_____Community-Based Mediation Center or Other Mediation Service Provider [and address]

Attached is an alphabetical list of certified mediators to select a mediator, or subject to our concurrence you may request the use of another mediator.

Within 10 days of the date of this letter, you must provide this office, in writing, with the concurrence/selection of the mediator. If you do not, you will waive your right to mediation. Rural Development will then contact the mediator, who in turn will contact you to determine if they can mediate the issues in your case. You will then have 45 days to complete the mediation.

When the mediation is concluded, you may file an appeal of the original adverse decision by immediately contacting the National Appeals Division (NAD):

[NAD Assistant Director Address]

Once you have been contacted by the mediation provider and if you decide not to pursue mediation, you must immediately contact this office (address at the top of this letter). You are responsible for all costs incurred by the mediation provider from the time of selection until your cancellation.

Mediation, or the cancellation of mediation, does not affect your rights to seek an appeal with NAD.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Copies for: State and/or National Office Program Director

NFAOC for SFH servicing cases

State ADR Coordinator

ATTACHMENT 1-E

REQUEST TO A MEDIATION SERVICE PROVIDER

DATE:

TO: [Mediation Service Provider]

FROM: Rural Development State Director

SUBJECT: Request for Mediation

CUSTOMER: [Name of the Rural Development customer requesting mediation]

[Customer contact information]

The above Rural Development customer has received an adverse decision from our Agency and has requested mediation. Attached is a copy of the adverse decision letter and the customer's request for mediation.

Informal Administrative Review

_____The Customer was provided with the opportunity for an informal administrative review with the Agency; however, the customer chose not to exercise this option.

_____An informal administrative review was conducted; however, the Agency did not reverse its decision.

Jurisdiction of the Case

The adverse decision in this case was made by the following office. You should contact this office for further information on the case:

[Agency contact: program, individual, address phone and email]

Payment for Service

The Rural Development policy is to pay 50 percent of the reasonable cost of the mediation service and the customer will pay 50 percent. In addition, we encourage the mediation service to consider the customer's ability to pay. The customer is solely responsible for their portion of the cost of this service and should be billed directly. The bill for the Agency's portion should be submitted to this Rural Development State Office:

[State ADR Coordinator Name and Address]**Jurisdiction of case:**

Mediation must be completed within 45 days from the date of this letter, unless both parties agree to an extension. We also request a teleconference prior to your acceptance of this case to determine whether the adverse decision lends itself to mediation by your service.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Attachments (2): Adverse decision letter

Customer's request for mediation

Copies for: State and/or National Office Program Director

NFAOC for SFH servicing cases

State ADR Coordinator

ATTACHMENT 1-F

ATTACHMENT FOR NOTIFYING CUSTOMERS OF EXPIRATION OF THE 10 DAYS TO SELECT A MEDIATION SERVICE PROVIDER

DATE:

TO: [CUSTOMER]

FROM: [State Director]

SUBJECT: Expiration of Selection of Mediation Service Provider

On [date], you requested mediation of the adverse decision as outlined in the attached letter which did not [grant the assistance you requested or will terminate or reduce the assistance you are currently receiving, or will give you relief from foreclosure]. You were also informed that you had 10 days from [date] to either concur in the mediation service assigned by Rural Development to your case, or name another mediation service for our consideration.

The 10 days to acknowledge the selection of the mediation service provider has expired. Your request for mediation therefore has expired, and Rural Development will begin to process the initial adverse decision as outlined in the attached letter.

Request an Appeal Hearing

Your request for mediation did not take the place of, or limit your right to request an appeal to the National Appeals Division (NAD). You may request an appeal hearing by NAD as long as there are days remaining from the original 30 days to request an appeal as outlined in the original adverse decision letter. You must immediately contact the NAD Assistant Director for your region (at the following address) to determine if you can file for an appeal hearing.

[NAD Assistant Director Address]

There is no cost for an appeal hearing. Your request must state the reasons why you believe the decision is wrong, be personally signed by you, and include a copy of the attached original decision letter. A copy of your request must also be sent to the Rural Development State Director:

[Rural Development State Director Address]

You, or your representative or counsel, may contact this office at anytime during regular office hours to examine or copy the Agency's record relative to the adverse decision. Photocopies will be provided to you. Your representative or counsel must have your written authorization to represent you and review your file. The NAD Administrative Judge will contact you regarding a time and place for the hearing.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Attachments (2)

Copies for: State and/or National Office Program Director

NFAOC for SFH servicing cases

State ADR Coordinator

ATTACHMENT 1-G

ATTACHMENT FOR CUSTOMER NOTIFICATION OF UNRESOLVED RESULT OF THE MEDIATION OF THE ADVERSE DECISION

DATE:

TO: [CUSTOMER]

FROM: [State Director]

SUBJECT: Unresolved Result of the Requested Mediation

Your request for mediation has been completed. We regret that mediation did not result in resolution of the issues. [We are unable to grant the assistance you requested, or will terminate, or will reduce the assistance you requested].

If you believe the decision or facts used in the case are in error, you may continue to pursue your right to an appeal by the National Appeals Division (NAD). There is no cost for an appeal. Please follow the guidance in the paragraph indicated with an "X."

☐ You requested an appeal hearing to NAD prior to entering into mediation. You must immediately write to the Assistant Director of NAD at the address below to determine the number of days remaining, if any, to schedule the appeal hearing.

[NAD Regional Assistant Director Address]

☐ You did not request an appeal hearing to NAD prior to entering into mediation. If you wish to schedule an appeal hearing, you must immediately write to the Assistant Director of NAD at the address below to determine the number of days remaining, if any, to schedule the appeal hearing. Your appeal request must be received within the remaining days, as determined by NAD, from the date when you requested mediation.

[NAD Regional Assistant Director Address]

Information Regarding Appeals

If NAD determines that you have appeal rights and you want to exercise those appeal rights, you, or your representative or counsel, may contact this office at anytime during regular office hours to examine or to have copied the Agency's record relating to the original adverse decision. Photocopies will be provided. Your representative or counsel must have your written authorization to represent you and review your file.

The NAD Administrative Judge will contact you regarding a time and place for the hearing. You may also request a teleconference hearing in lieu of the face-to-face hearing. At any time before the scheduled hearing, you may also request that the Administrative Judge make a decision without a hearing.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Copies for: State and/or National Office Program Director

NFAOC for SFH servicing cases

State ADR Coordinator

CHAPTER 2: OVERVIEW OF SECTION 502

2.1 INTRODUCTION

This chapter provides an overview of key aspects of the Section 502 program. Section 1 identifies the various types of loans available and details the circumstances in which each kind of loan can be made. Section 2 describes the Agency's Dedicated Loan Origination and Servicing (DLOS) System. The chapter concludes with Section 3, a broad-brush overview of the steps involved in processing Section 502 loans.

SECTION 1: TYPES OF LOANS

2.2 OVERVIEW

The rules governing Section 502 loan origination differ slightly, depending upon the type of loan being made. The types of loans available under Section 502 include:

- Initial loans;
- Assumed loans;
- Subsequent loans; and
- Nonprogram loans.

This section describes the four types of loans and how they differ. The interest rate for SFH loans can be found in Exhibit B of RD Instruction 440.1.

2.3 INITIAL LOANS

Initial loans are made when neither the applicant nor the seller has an existing Agency loan. Generally, they are made for the maximum loan term for which the applicant qualifies, and at the Rural Housing (RH) 502 very low or low interest rate. If no prior Agency loans are involved in the transaction and the loan is to be made on program terms, this is the type of loan used. An initial loan can be made to an existing homeowner, who is not an Agency borrower, for essential repairs to their home provided any senior lien secures an affordable non-Agency loan.

2.4 ASSUMED LOANS

Section 502 loans may be assumed. The terms and conditions of the assumption depend upon the eligibility of the new purchaser.

A. New Rates and Terms Assumption

Most assumptions of Section 502 loans are **new rates and terms assumptions** -- that is, the purchaser assumes responsibility for all or a portion of the remaining debt, including principal and recapture receivable amounts. The transaction does not involve paying off the old loan and issuing a new initial loan. Instead, the purchaser assumes the outstanding debt, which is reamortized at new rates and terms. If the new purchaser and the property are eligible for the Section 502 program, the loan can be assumed on program terms. In addition, eligible new purchasers may receive subsequent loans to make up the difference between the amount of debt assumed and the purchase price, or may be able to obtain a leveraged loan. If the property does not meet Agency standards or will not be brought to Agency standards with the use of loan funds, or the new purchaser is not eligible, the loan can be assumed on nonprogram terms. Purchasers who assume the loan under nonprogram terms are not eligible for a loan to cover amounts above the amount assumed.

B. Same Rates and Terms Assumption

In certain limited cases -- generally those involving transfers of title between family members -- a **same rates and terms assumption**, is permitted. Under this type of assumption, the existing note terms, including the interest rate and the remaining repayment period, do not change.

The new owner is not reviewed for income-eligibility, creditworthiness, or repayment ability; and the property is not reviewed or appraised. The new owner may receive payment subsidy if eligible based on their household's adjusted income.

Same rates and terms assumptions are permitted for the following types of transfers:

- A transfer from the borrower to a spouse or children not resulting from the death of the borrower;
- A transfer to a relative, joint tenant, or tenant by the entirety resulting from the death of the borrower;
- A transfer to a spouse or ex-spouse resulting from a divorce decree, legal separation agreement, or property settlement agreement;

- A transfer to a person, other than a deceased borrower's spouse, who wishes to assume the loan for the benefit of persons who were dependent on the borrower at the time of death, if the dwelling will be occupied by one or more persons who were dependent on the borrower at the time of death, and there is a reasonable prospect of repayment; or
- A transfer into an inter vivos trust in which the borrower does not transfer rights of occupancy in the property.

A party interested in a same rates and terms assumption must provide the Agency with evidence that they meet one of the permitted types of transfers listed above and a copy of the recorded deed conveying ownership to them.

2.5 SUBSEQUENT LOANS

Subsequent loans can be issued as part of the original purchase of a property in combination with an assumption, or during the term of an Agency loan to help an existing borrower pay for repairs or improvements to the property. The key processing differences between subsequent and initial loans are described in Exhibit 2-1 and in later chapters.

Exhibit 2-1

Key Processing Differences for Subsequent Loans

- An appraisal is not required for a subsequent loan: Less than $7,500 and for minimal essential repairs; $7,500 or more where the Agency obtained an appraisal within the last two years; or to protect the Government's interest (see Paragraph 5.17 A.).
- Subsequent loans may be made in areas that changed from rural to non-rural to make necessary repairs, to pay equity in connection with an assumption of a program loan, or to pay equity of a departing co-borrower (see Paragraph 5.3 C.6.).
- The Agency may reamortize the initial loan when the subsequent loan is made if the borrower cannot reasonably be expected to meet the payments without the reamortization (see Paragraph 6.16 B.2.).
- Full title clearance is not needed for subsequent loans to existing borrowers for minimal essential repairs to protect the Government's interest (see Paragraph 5.12 B.).
- Applicants have a legal right to cancel a subsequent loan within 3 business days from whichever of the following activities occurs last: (1) execution of the mortgage or deed of trust; (2) receipt of the Closing Disclosure at least three business days prior to consummation; or (3) receipt of Form RD 1940-43, Notice of Right to Cancel. Loan funds cannot be disbursed until the three business days have passed, unless a hardship exists and the applicant waives their right to cancel the loan in writing, as mentioned in Paragraph 8.6 F.2. Form RD 1940-43 is not used for subsequent loans made in conjunction with an assumption since the applicant does not have title to the property.

2.6 NONPROGRAM LOANS

Nonprogram loans are loans made on nonprogram terms to borrowers who are not program-eligible, and/or for properties that do not meet Agency standards and will not be brought to Agency standards with the use of loan funds. The interest rate offered is somewhat higher than for program-eligible borrowers, but is competitive in the marketplace. Borrowers with nonprogram loans are not eligible for program benefits, such as payment subsidy, or for servicing actions, such as moratoriums. They also are exempt from occupancy restrictions and the requirement to refinance with private credit. Nonprogram loans are discussed in detail in Chapter 11. The circumstances in which the Field Office can originate nonprogram loans are discussed below.

A. Facilitate Sale By an Existing Agency Borrower

When an existing Agency borrower wishes to sell a security property, the Agency will assist the borrower by allowing any creditworthy purchaser to assume all or a portion of the outstanding debt on new rates and terms. If the purchaser does not qualify for assistance under the Section 502 program, the loan may be assumed on nonprogram terms. Nonprogram purchasers acquiring a property from an Agency borrower are only permitted to assume existing debt; new credit cannot be extended to them through a subsequent loan.

B. Facilitate Sale of Real Estate Owned (REO) Property

The Agency may offer credit for the purchase of REO property on nonprogram terms to borrowers who are not program-eligible, and/or for properties that are not program-eligible.

SECTION 2: THE DEDICATED LOAN ORIGINATION AND SERVICING SYSTEM (DLOS)

2.7 DLOS

DLOS is designed to expedite loan-making, standardize information collection and record keeping, and facilitate communication between Field Offices and the National Financial and Accounting Operations Center (NFAOC). DLOS tracks loans from application through servicing using two interconnected systems: UniFi and MortgageServ.

2.8 UNIFI

UniFi is a web based application used for loan origination. It retains applicant information, makes complex computations, and maintains a central record of all activities associated with an individual application from the time of pre-qualification through loan closing. UniFi's many data screens are linked so that once a piece of information is entered, UniFi will automatically transfer it to all pertinent data screens.

A few of UniFi's most important features include:

- Its ability to create a waiting list to help the Loan Originator select applications for processing in the proper order;
- Screens that automatically calculate maximum loan amount and payment subsidy; and
- The ability to print out many loan approval and closing forms with borrower information inserted.

2.9 MORTGAGESERV

MortgageServ is a mainframe-based application that is used to service Agency loans and monitor loan performance. It is linked to UniFi so that information from UniFi can be uploaded into MortgageServ each night.

Field Staff can access certain areas of MortgageServ to gather information on a borrower's account, such as determining the amortized loan amount on construction loans. The Loan Originator uses MortgageServ to obligate funds and order checks.

MortgageServ is also a communications device to help NFAOC and Field Staff keep abreast of each others' activities. If NFAOC needs on-site assistance for a servicing action, MortgageServ can be used to communicate with Field Staff. For example, a Servicer involved in working out an insurance claim with a borrower might use the MortgageServ work queue to ask Field Staff to visit the property to assess the repair work that has been done to date. Similarly, if a Loan Originator obtains information about a change in a borrower's employment status that has not been reported, MortgageServ can be used to pass on that information to NFAOC.

SECTION 3: OVERVIEW OF LOAN ORIGINATION PROCESS

2.10 APPLICATION PROCESSING (Chapter 3)

When potential applicants express interest in the Section 502 program, the Loan Originator may conduct a pre-qualification to determine whether the household appears to qualify for a loan based on unverified information and what the loan amount is likely to be. The potential applicant may submit an application regardless of the outcome of the pre-qualification.

Processing Steps

This section outlines the steps involved in processing a Section 502 loan. It is intended to provide a conceptual overview of the process. The detail needed to fully understand each step follows in later chapters of this handbook.

When an applicant submits a complete application, the application will be reviewed for eligibility within 30 days. If the applicant is not eligible, the Loan Approval Official will deny the application. If the applicant is determined eligible, the Loan Originator will determine if funding is available, using guidance outlined in Chapter 4, prior to issuing a Certificate of Eligibility. Only eligible applicants will be placed on the waiting list in the event funding is not available. As funds become available, applicants on the waiting list must be selected for processing in the appropriate order, based on priority status and application date.

2.11 BORROWER ELIGIBILITY (Chapter 4)

Once the application has been selected for processing, the Loan Originator must determine the applicant's eligibility. This involves verifying the household's income, checking the credit history of all parties to the note, and reviewing all other eligibility requirements. Once the applicant's eligibility has been verified, the Loan Originator uses verified income information to determine the amount of payment subsidy the household is entitled to, and the maximum loan amount the applicant will be able to receive.

Based on this information, the Loan Originator counsels the applicant about the level of mortgage debt the household can afford, and issues a Certificate of Eligibility, which is signed by the Loan Approval Official. The household then attempts to locate a home. In cases where the applicant has already submitted a contract for a property, no Certificate of Eligibility is needed.

2.12 PROPERTY REQUIREMENTS (Chapter 5)

Once the household has located a home or decided on the design of a dwelling to be constructed, they must provide key information to allow the Loan Originator to determine whether the property is modest and meets the Agency's underwriting guidelines. This includes the information needed to conduct an appraisal, to conduct an environmental review, and to verify that the site and dwelling meet, or will be constructed to meet, all applicable requirements.

2.13 UNDERWRITING THE LOAN (Chapter 6)

If the applicant and the property meet the Agency's standards, the Loan Originator must determine the loan amount needed and whether it can be supported by the household's repayment ability. In order to determine repayment ability the Loan Originator must have a good estimate of the impact that escrow payments for taxes, flood insurance, and hazard insurance will have on the household. Repayment ability also is affected by the payment subsidy the household is entitled to, which is based on the household's adjusted income

2.14 TAXES, INSURANCE, AND ESCROW (Chapter 7)

To ensure that funds are available to pay for the cost of real estate taxes, insurance premiums, and other assessments, the Loan Originator must have a good understanding of how to set up a good escrow account. Before closing the loan, the Loan Originator must work closely with the closing agent to get accurate figures to use in establishing escrow payments.

2.15 LOAN APPROVAL AND CLOSING (Chapter 8)

The Loan Approval Official reviews the case file and determines whether the loan can be approved. If the loan is approved, the Loan Originator notifies the applicant and obligates the funds.

The applicant then selects a closing agent. The closing agent is responsible for conducting the preliminary title clearance and for ensuring that the property conforms to the Agency's security requirements. The Loan Originator and closing agent work together to ensure that all required closing documents are prepared for signature at closing and that Agency funds arrive before the date of closing. The Loan Originator activates the loan in MortgageServ after loan closing and prepares a loan docket to send to NFAOC for servicing.

When a new home is to be built or rehabilitation on an existing dwelling is involved, the Loan Originator also oversees the progress of construction. This involves ensuring that inspections are performed at appropriate points in the process, that mitigation measures established as part of any environmental review are properly implemented, and that funds are disbursed appropriately to pay for the work.

CHAPTER 3: APPLICATION PROCESSING

3.1 INTRODUCTION

This chapter describes the process of accepting and managing applications, up to the point that an applicant is selected for processing. This includes pre-qualifications (largely through the Single Family Housing Direct Eligibility Assessment tool), taking and reviewing applications, and selecting applications for processing.

SECTION 1: PRE-QUALIFICATION

3.2 OVERVIEW

Pre-qualification involves using unverified information to evaluate the likelihood that a potential applicant, someone who is interested in the program but has not yet applied, would be program eligible. The results of pre-qualification are not binding and will not hinder the submission of an application. A potential applicant with possible obstacles to program eligibility may apply and a potential applicant who appears program eligible is not guaranteed that a loan will be made.

The standard pre-qualification method is the potential applicant's self-assessment using the Single Family Housing Direct Eligibility Assessment tool. Agency staff should refer potential applicants to the tool in their marketing materials, while speaking to them, etc. Pre-qualifications completed by the Agency staff are limited.

3.3 PROCEDURES FOR PRE-QUALIFICATION

On those limited occasions where the Agency staff completes a pre-qualification, the Loan Originator should follow the procedures below.

- Obtain information from the potential applicant about household members, income, deductions, debt, and the county where they want to purchase a home.

- Order an in-file credit report if the potential applicant has signed Form RD 3550-1, Authorization to Release Information, and if it would aid in the review.

- Check the Department of the Treasury's Do Not Pay (DNP) portal and check the applicant's social security number against Agency records by using MortgageServ's "SSN CROSS REFERENCE" softlink key.

- Enter the information in UniFi, register the pre-qualification following the instructions in the DLOS Training Manual, and generate the Eligibility Summary using standard terms (unless the potential applicant appears to qualify for adjustments to the standard terms). If the potential applicant is working with a leveraged partner, consider the possible leveraging funds.

- Discuss the results with the potential applicant and emphasize that the results are informal and unbinding. As applicable, consider the below when discussing the results and refer to Attachment 3-F for guidance on addressing negative results.

    - Moderate-Income Applicant: Discuss the possibility of obtaining a nonprogram loan or obtaining a Guaranteed Rural Housing (GRH) loan.

    - Insufficient Repayment Ability: Discuss the possibility of obtaining subsidized funds from other sources, reducing debt, and adding additional parties or a co-signer to the note. See Paragraph 4.24 for a detailed discussion of other considerations related to maximum loan amounts.

    - Potential Ability to Obtain Other Credit: If a potential applicant's credit history, income (i.e. they appear to be above the very low-income limit), assets, and lack of apparent need for payment assistance indicate that they should be able to qualify for a GRH loan or private financing, the potential applicant should be informed that they should attempt to obtain other credit.

- If the pre-qualification was not conducted face-to-face or over the telephone, use Handbook Letter 19 (3550), Pre-qualification Review, to prompt the opportunity to counsel the potential applicant.

- Retain all pre-qualification records in accordance with RD Instruction 2033-A and Electronic Customer File guidance.

- As applicable, encourage the potential applicant to seek credit counseling or take a homeownership education course. **NEVER** discourage the potential applicant from applying.

SECTION 2: HOMEOWNER EDUCATION

3.4 HOMEOWNER EDUCATION REQUIREMENT [7 CFR 3550.53(i)]

The Agency requires applicants who are first-time homebuyers to complete homeowner education training as early in the application process as possible since the training will prepare them for shopping, buying, financing, and owning a home. While the training should be completed by the applicant prior to them entering into a contract to purchase or construct a home, the applicant should be encouraged to take the training as soon as they express an interest in homeownership (e.g. when they call inquiring about the program or apply for a loan) for maximum benefit.

A. State Director Assessment of Homeowner Education [7CFR 3550.11]

The State Director will make an assessment by area of the availability of certified homeownership education providers in their respective states. A list of providers will be maintained by the State Office, including the reasonable costs, if any, to the participant.

The order of preference for homeownership education formats is as follows:

- Classroom, one-on-one counseling, or interactive video conference.
- Interactive home-study or interactive telephone counseling of at least four hours duration.
- Online counseling.

A lower preference homeownership education format may be used when a higher preference format is not reasonably available in the local area, which is determined by factors such as distance, travel time, geographic obstacles, and cost.

To be included on the list, the provider must have a certificate of completion process and homeownership education counselors that are certified by any of the following:

- The Department of Housing and Urban Development (HUD);
- NeighborWorks America (NWA);
- The National Federation of Housing Counselors (NFHC);
- National American Indian Housing Council (NAIHC); or
- The State Housing Finance Agency or other qualified organization approved by the State Director.

In addition, the State Director may include homeowner education provided by USDA Cooperative Extension System staff.

Online homeownership education courses offered and accessible on a national, non-state specific basis, will be reviewed and approved by the National Office. This is not intended to endorse a particular online course but to have a process by which these types of online courses will be evaluated in a uniform manner for usage by all states. A State Director may assess a state specific online course for inclusion in their list of providers. However, a state specific online course will be limited to third preference unless prior approval from the National Office authorizes a higher preference.

Where there is a fee charged to the applicant for homeownership education, the state will also assess commonly used resources of funding for the applicant to pay for their homeownership education. In addition, organizations that provide free homeownership education will be identified, and applicants will be referred to the free training first in all states.

The provider will issue a letter or certificate of completion to document that the applicant has satisfactory knowledge of these minimum topics:

- Preparing for homeownership (evaluate readiness to go from rental to homeownership)
- Budgeting (pre- and post-purchase)
- Credit counseling
- Shopping for a home
- Lender differences (predatory lending)
- Obtaining a mortgage (mortgage process, different types ofmortgages)
- Loan closing (closing process, documentation, closing costs)
- Post-occupancy counseling (delinquency and foreclosure prevention)
- Life as a homeowner (homeowner warranties, maintenance and repairs)

Generally, a valid letter or certificate of completion of homeownership education that is less than two years old at date of loan closing will be considered acceptable. When appropriate, the provider may tailor the homeownership education training to the needs of the applicants, while ensuring satisfactory knowledge of the minimum required homeowner education topics. For example, if an applicant has already executed a purchase and sale agreement on a house, the provider may decide after conference with the applicant, to condense or omit the homeownership education section on “shopping for a home”.

B. Providing Homeownership Education Information to the Applicant

The Loan Originator must ensure that applicants who are first-time homebuyers complete homeowner education training as early in the application process as possible. Applicants should be instructed to complete the training prior to entering into a contract to purchase or construct a home for maximum benefit. In addition, the Loan Originator must assist the applicant by providing the list of approved local homeowner education providers to the applicant along with Attachment 3-J.

The list of approved local providers will also include eHome America, Framework, and Utah State University Extension. eHome America is a nationally approved online homeownership education provider with first preference format. Registration for this course is through http://ehomeamerica.org/usda and costs $75. Framework and Utah State University Extension are nationally approved online homeownership education providers with third preference format. Registration for Framework is through http://www.frameworkhomeownership.org/ and costs $75. Registration for Utah State University is through https://extension.usu.edu/hbe/homebuyer-coursecertificate/index and costs $60 for the applicant and $5 for a co-applicant.

The applicant must be informed that should there be a fee for the homeowner education course selected and there are no other sources for payment, the fee may be added to the loan amount at loan closing (see Paragraph 6.4 Fees and Related Costs). The applicant should be advised that if they do not close on their loan, they will still be responsible for the homeownership education fee.

Consistency Is Key

Be sure to use consistent procedures when providing information to ALL applicants.

C. Exception Provision

The State Director may grant an exception to the homeownership education requirement for individuals in geographic areas where certified homeownership education is not reasonably available in the local area. However, a conservative approach to the exception provision is recommended, as generally, all efforts are encouraged to have applicants undertake homeownership education early in the homeownership process to gain maximum benefit. Whether such homeownership education is "reasonably available" will be determined based on an assessment of factors including, but not limited to: distance, travel time, geographic obstacles, and cost. On a case-by-case basis, the State Director may grant an exception to the homeownership education requirement, provided the applicant documents a special need such as a disability that would impede completing a homeownership course in the above mentioned formats listed in Paragraph 3.4 A.

SECTION 3: APPLICATIONS [7 CFR 3550.55]

3.5 BEGINNING THE APPLICATION PROCESS

An interested party can begin the application process by:

- Requesting that the Agency mail or email them an application or they can obtain one in person at any Field Office. When mailing or handing off an application, the Field Office will also provide Attachment 3-D and Attachment 3-J, which is a checklist of items that should accompany the application when submitted by the interested party.

- Applying online. To apply online, an interested party must first register to obtain a USDA eAuthentication identification and password. http://forms.sc.egov.usda.gov/eForms/welcomeAction.do?Home

- Engaging the service of a loan application packager. Loan application packagers, who are separate and independent from the Agency, provide an optional service to parties seeking a housing loan by helping them navigate the loan application process.

The Agency supports partnerships with loan application packagers since packagers can provide outreach and presence in counties where a Field Office is not located; assist the Agency in reaching very low-income applicants; promote the program in underserved areas; prescreen potential applicants; counsel potential applicants on how to improve their ability to qualify for a home; ensure that applications are complete and accompanied by the supporting documentation needed for the Agency's decision; and give applicants insight into the Agency's application process and regulations. Attachment 3-A provides processing guidance for Field Offices and packagers.

3.6 APPLICATION RECEIPT AND CASE FILE SETUP

Applications must be date stamped immediately upon receipt. This date must be entered on the "Application received on" line on page 8 of Form RD 410-4, Uniform Residential Loan Application, and in the "Date Application Received" field in UniFi. Applications must also be reviewed within 3 business days after receipt to determine if the Loan Estimate disclosure requirement was triggered (see Paragraph 3.8) and to determine if items are missing.

A. Missing Items

The Loan Originator should contact the applicant after reviewing the application to obtain any missing items. Handbook Letter 11 (3550), Request Information, should be sent to the applicant requesting the missing items and stating that their application will be withdrawn if the missing information is not received within 15 days.

B. Case File Setup

The Loan Originator should promptly setup the case file by:

- **Entering data.** Information from the application should be entered in UniFi.

- **Establishing the electronic and/or hardcopy case file.** The applicant's case file should be established according to RD Instruction 2033-A. For subsequent loans, the new documentation should be added to the existing case file.

- **Beginning the required Single Family Housing Checklist.** Use Attachment 3-G, 502 Single Family Housing Checklist, for Section 502 loan applications and Attachment 12-C, 504 Single Family Housing Loan & Grant Checklist, for Section 504 loan/grant applications. States may add additional page(s), subject to prior approval from the National Office, to reflect required processes related to state laws. The checklists are required and intended as a processing aid for field staff.

The application is a working document. Whenever revised or verified information is received, the appropriate UniFi field should be updated. At loan closing, a final application will be generated to reflect the updated information gathered during the loan approval process.

3.7 COMPLETE APPLICATION

An application is considered complete when an applicant, loan application packager, or Agency-approved intermediary submits a fully completed and signed uniform residential loan application and all the applicable items listed in Attachment 3-J. Upon receipt of these items, the Loan Originator should perform the necessary verifications and make an eligibility determination recommendation. If the application package does not contain a written explanation of derogatory credit, assume its absence is acceptable (at least initially). If derogatory credit appears on the tri-merge credit report and an explanation was not provided with the application, then an explanation may be requested.

In place of Form RD 410-4, a current industry standard application form may be accepted when accompanied by the Agency's supplemental pages (6-10) of Form RD 410-4. Once complete, the date must be entered on the "Application completed on" line on page 8 of Form RD 410-4 and in the "Application Complete Date" field in UniFi. It is important that this date be correct because it is used to track priority for processing.

Once a complete application is received, the application will be reviewed for eligibility within 30 days. If the applicant is not eligible, the Loan Approval Official will deny the application. If the applicant is determined eligible, the Loan Originator will determine if funding is available, using guidance outlined in Section 4 of this chapter, prior to issuing a Certificate of Eligibility (COE). Only eligible applicants will be placed on the waiting list in the event funding is not available.

If an applicant wants their application to be transferred to a different servicing area, the steps outlined in Chapter 5 of the DLOS Training Manual must be followed by the original and receiving areas; and the receiving area will perform their own eligibility and underwriting analyses.

3.8 COMPLIANCE WITH OTHER FEDERAL REQUIREMENTS

A. Truth in Lending Act (TILA) and Real Estate Settlement Procedures Act (RESPA) Integrated Mortgage Disclosures

The Truth in Lending Act and Real Estate Settlement Procedures Act Integrated Mortgage Disclosures (TRID) rule, issued by the Consumer Financial Protection Bureau (CFPB), integrates the disclosure requirements associated with the individual TILA and RESPA regulations. This regulation is intended to simplify the disclosures associated with a mortgage loan transaction and assist consumers understand the cost of credit and the difference of such cost among creditors. TRID requires lenders to provide applicants with pertinent and timely disclosures of the nature and costs of the real estate settlement process, these disclosures are the Loan Estimate and the Closing Disclosure. Any loan, including a Section 504 loan, is subject to TRID if a security interest will be taken on the property.

1. Initial Disclosures: Loan Estimate, Written List of Service Providers and Special Information Booklet

A loan application for TRID purposes is the submission of the following information: (1) applicant's name, (2) applicant's monthly income, (3) applicant's social security number to obtain a credit report, (4) property address, (5) an estimate of the value of the property, and (6) mortgage loan amount sought.

When an application as defined by TRID is received, the following initial disclosures must be provided to the applicant within 3 business days of receiving the application but no later than 7 business days before loan closing:

- Handbook Letter 5 (3550), Cover Letter to Truth in Lending Disclosure;
- CFPB's standard Loan Estimate;
- Attachment 3-I, Settlement Service Providers List and Mortgage Loan Application Related Disclosures; and
- CFPB's "Your home loan toolkit: A step-by-step guide".

Business days for Loan Estimate purposes are Monday-Friday. If the initial disclosures are not provided to the applicant in person, the applicant is considered to have received the disclosures 3 business days after they are delivered or placed in the mail. The terms of the Loan Estimate are binding for at least ten (10) business days from when it is issued, subject to tolerances and changed circumstances, unless a revised Loan Estimate is issued before settlement or the Loan Estimate expires.

TRID establishes variation limitations between the charges disclosed in the Loan Estimate and the final charges listed in the Closing Disclosure. **All lender charges, including fees paid to a packager or qualified intermediary, which are imposed on a consumer must be disclosed whether financed, paid by the buyer, paid by the seller, or paid by a third party.** Closing costs are divided into charges that cannot increase (Zero Tolerance), charges that in total cannot increase more than ten percent (10% Tolerance), and charges that can change (Not Subject to Tolerance). When the charges in the Closing Disclosure exceed the tolerance thresholds, the Loan Estimate is not considered to have been provided in good faith and the Agency is required to reimburse to the borrower the amount by which the tolerance was exceeded. The Loan Originator is responsible for issuing accurate and timely TRID disclosures.

The Loan Estimate cannot be revised and reissued unless changed circumstances occur. "Changed Circumstances" is defined by regulation as: (1) An extraordinary event beyond the control of any interested party or other unexpected event specific to the consumer or transaction; (2) Information specific to the consumer or transaction that the creditor relied upon when providing the required disclosures and that was inaccurate or changed after the disclosures were provided; or (3) New information specific to the consumer or transaction that the creditor did not rely on when providing the original disclosures. In the event changed circumstances occur, the Loan Originator must send the revised Loan Estimate within 3 business days of receiving the information that established the change but no later than 7 business days before closing. Only those fees impacted by the changed circumstance may change and supporting documentation must be retained in the case file for no less than three years after settlement. A revised Loan Estimate cannot be provided on or after the date of the Closing Disclosure.

The Loan Estimate, which gives a preliminary indication of the amount of escrow required, does not explain the concept of escrow. During the applicant orientation, escrow will be explained and the Agency's requirements will be outlined.

2. Final Disclosure: Closing Disclosure

Under the TRID regulation, creditors must ensure the consumer receives the Closing Disclosure at least 3 business days before loan consummation. The mailbox rule states that if a disclosure is not provided to the consumer in person, the consumer is considered to have received the disclosure 3 business days after it was delivered or placed in the mail. Business days for Closing Disclosure delivery are all calendar days except Sundays and legal public holidays.

"Consummation" occurs when the consumer becomes contractually obligated to the creditor. Although consummation may commonly occur at the same time as closing or settlement, it is a legally distinct event that is not the same thing as closing or settlement.

While the closing agent/attorney will complete the Closing Disclosure, the Agency is ultimately responsible for meeting the accuracy and delivery requirements of this form. The appropriate Agency staff will review the Closing Disclosure prepared by the closing agent and, if correct, will proceed (or authorize the closing agent/attorney) to provide the disclosure to the applicant within the timeframe provided by the law.

If there is more than one applicant involved in a transaction, the Closing Disclosure may be provided to any applicant with primary liability on the obligation for purchase transactions. However, for transactions with a rescission period, the Closing Disclosure must be given separately to each applicant who has the right to rescind under the regulation.

The Agency must redisclose the terms and costs on the Closing Disclosure if certain changes occur to the transaction after the Closing Disclosure was first provided to the applicant and that cause the disclosures to become inaccurate. Revising the Closing Disclosure after it has been provided to the applicant may require an additional 3 business day waiting period prior to consummation.

B. Truth in Lending Act

The Truth in Lending Act (TILA) is intended to assist consumers understand the cost of credit and the difference of such cost among creditors. The Agency is required to issue a Truth in Lending Statement disclosing specific information about the terms and costs of the loan for all unsecured Section 502 or 504 loan transactions. The Annual Percentage Rate (APR) is one of the key components of the truth in lending statement and it represents the cost of the credit expressed as a percentage. For loans where a security interest will not be taken on the property, Form RD 1940-41, Truth in Lending Statement, must be issued within 3 business days of receiving a complete application as defined above. If the APR varies by more than one-eighth of a one percent at the loan closing, the Truth in Lending Statement must be re-issued using the actual terms of the transaction.

C. Fair and Accurate Credit Transaction Act

In accordance with the Fair and Accurate Credit Transactions Act of 2003, the Agency is required to disclose to the applicant, upon request, the score that a credit bureau distributed and was used in connection with their loan. In addition, the Agency is required to disclose the key factors affecting the applicant's credit scores. Therefore, Attachment 3-H, Credit Score Disclosure, must be provided to the applicant when the credit report fee is collected. It must be explained to the applicant that the credit score will not be used to determine loan approval but only to presume acceptable credit in lieu of other credit underwriting practices.

D. Equal Credit Opportunity Act (Regulation B)

The Equal Credit Opportunity Act (ECOA) of 1974 prohibits creditors from discriminating against credit applicants who are members of a protected class (as discussed in Chapter 1).

Regulation B, which implements the provisions of the ECOA, outlines the rules lenders must adhere to before, during, and after an application for credit is received and evaluated. Agency activities covered under Regulation B include but are not limited to: information and documentation requirements, verification procedures, how standards to determine creditworthiness are used, actions taken on the application, modification of credit terms, and collection procedures. The application processing procedures prescribed in this handbook take into consideration the various provisions and requirements outlined in Regulation B, including the notification requirements. Following these procedures and using consistency when processing Section 502 and 504 loan applications ensures compliance with this regulation.

Under Regulation B, lenders are required to provide loan applicants a written notification of their right to receive a copy of the appraisal report and deliver such appraisal in a prompt manner but no later than 3 business days before closing.

To comply with this requirement, the Loan Originator must provide the following:

- **Notification of Right to Receive a Copy of the Appraisal**: The Agency is required to provide to the applicant a written notification of the applicant's right to receive a copy of all written appraisals, or any other acceptable valuation, developed in connection with a mortgage application to be secured by a first lien on a dwelling. The appraisal notification, which is included in Attachment 3-I, must be issued within 3 business days of receiving a loan application with a specific property to be financed. Providing Attachment 3-I along with pertinent TRID disclosures meets the appraisal notification requirement.

- **A Copy of the Appraisal**: In accordance with Regulation B, and as stated in the appraisal notification, the Agency must provide to the applicant a copy of the appraisal, or any other written valuation, promptly upon completion but not later than 3 business days prior to closing, whichever is earlier. For the Agency's purposes, upon completion occurs when the Loan Approval Official has reviewed the appraisal and made the lending decision. If the loan application is approved without using the subject to appraisal allowance, the Loan Originator should provide a copy of the appraisal along with Form RD 3550-7, Funding Commitment and Notification of Loan Closing; if the application is rejected, it should be sent along with Handbook Letter 15 (3550), Standardized Adverse Decision Letter, or Handbook Letter 17 (3550), Adverse Decision Involving an Appraisal, whichever is applicable. If the loan application is approved using the subject to appraisal allowance (which is

permitted throughout the fiscal year provided the appraisal is completed within 30 days from the obligation date), the applicable box on Form RD 3550-7 must be checked and a copy of the appraisal must be promptly provided to the applicant once it is received, reviewed, and accepted by the Agency. Applicants do not have to request a copy of the appraisal to receive one. If there is more than one applicant, the Loan Originator may send a copy of the appraisal to only one applicant.

3.9 WITHDRAWING AND REJECTING APPLICATIONS

An applicant can withdraw an application at any time by writing or calling the Field Office. The Agency may withdraw the application if the applicant fails to respond to the Agency's written request for information in a timely fashion. In most cases, as specified in this handbook, the response time is 15 days. However, in some situations such as obtaining bids for repair work, a longer timeframe may be warranted. In these limited situations, the response time will be up to 30 days. All letters to applicants requesting information must clearly indicate that the application will be withdrawn if the appropriate information is not provided within the specified time frame.

When an applicant is rejected, they must be informed, in writing, of the adverse decision and their review and appeal rights. All reasons for the rejection must be clearly documented. Applicants who are over the low-income but within the moderate-income limit should be issued Handbook Letter 1 (3550), Moderate Income Options.

Once an application has been withdrawn or rejected, an applicant who wishes to reapply must complete a new application form. The Loan Originator should record in UniFi that the application has been withdrawn or rejected. The case file should be placed in the inactive file. Only in the following situations can an application be reopened:

- If the National Appeals Division has overturned the rejection of an application; or
- The Loan Approval Official has reviewed and reconsidered the rejection of an application.

In these situations, Attachment 3-E must be completed and forwarded to the National Financial and Accounting Operations Center (NFAOC), Field Assistance Desk, for processing.

SECTION 4: SELECTION FOR PROCESSING

3.10 OVERVIEW

In general, applications are processed on a first-come, first-served basis. However, if available funding is not sufficient for all eligible applications, the Loan Originator selects applications for processing using the priorities described in Paragraph 3.13. This section discusses the appropriate actions to take to notify applicants of their status and select applications for processing in the proper order.

3.11 DETERMINING WHETHER FUNDS ARE AVAILABLE

The Loan Originator must determine whether funds are available before proceeding with further processing. Loan Originators will review the number of applications on hand in UniFi at least quarterly. A sufficient number of applications will be reviewed and Certificates of Eligibility will be issued, as appropriate, based on expected state and national funding availability by income category over the next 90 days. The Loan Approval Official may use historical data, but generally the number of outstanding Certificates of Eligibility will not exceed 150 percent of the expected funding. State Directors will issue State Supplements to provide guidance about how many applications should be processed based on available funding levels.

A. Regular Funding

Nationwide, at least 40 percent of Section 502 loan funds must be allocated to very low-income households. Since each state meets this goal in different ways, Loan Originators also may have to consider the guidance provided through State Supplements in determining whether funds are available for the applicant's income category.

In rare situations, the funds available may be less than the amount for which the applicant is eligible. If this occurs, it is important to follow consistent procedures. An example of a possible procedure is provided in Exhibit 3-1.

Exhibit 3-1

Procedures if Funds are Inadequate for the Next Applicant on the Waiting List

Applicant A is next on the waiting list and qualifies for a $175,000 loan. Applicant B is eligible for a $140,000 loan. The funds available are $145,000.

- Call State Office to ask for more funds.
- Document the results of this conversation. If no more money is available, offer Applicant A $145,000.
- If Applicant A accepts, proceed.
- If Applicant A does not accept, go to Applicant B and keep Applicant A at the top of the waiting list for the next available funds.

B. Special Funding

Each year the National Office may designate funds to address special high-priority needs identified by the Agency. If an applicant falls into one of those high-priority needs areas and funds are available, the application can be processed immediately. For example, in a year in which funds have been set aside to target a particular geographic area, an application from a household willing to seek a property in that area could be processed ahead of other applications.

Information about funds available for high-priority needs are distributed to Field Offices through State Supplements, based on guidance from the National Office through RD Instruction 1940-L.

3.12 IF FUNDING IS NOT AVAILABLE

If funds are insufficient to proceed processing an application from an applicant who has been determined eligible, the applicant should be notified using Handbook Letter 2 (3550), Funds Not Available that they have been determined eligible, but funding is not currently available. The letter should indicate the expected waiting time before funding will become available to the applicant, given the applicant's priority status.

When funds are not readily available to obligate a loan request from an eligible applicant who has already been issued a Certificate of Eligibility and/or who has identified a property, Field Offices should issue Handbook Letter 4 (3550), Funds Not Available – Certificate of Eligibility/Identified Property.

3.13 SELECTING APPLICATIONS FOR PROCESSING

If funding is available, applicants must be selected for processing in the proper order and notified of the actions they must take. Consideration should be given to funding available from both the state allocation and national reserves.

A. Selection Procedures

If a Field Office has a backlog of unprocessed applications, when funding becomes available, a list of unprocessed applications should be generated from UniFi. The Loan Originator must select applications for processing based on each applicant's priority and the date the application was determined complete as outlined in Paragraph 3.7. The number of applications selected will be determined based on guidance from the State Director.

> **Documenting Proper Selection Procedures**
>
> Always retain a hard copy of the waiting list when applicants are selected for processing.

Whenever applicants are selected for processing, a hard copy of the waiting list should be printed and placed in an operational file to document that the applications were processed in the correct order. This is important because the electronic files will be overwritten, leaving no documentation to verify that proper procedures were followed.

B. Processing Priorities

When funding is not sufficient to fund all applications, a priority system is used to ensure that applicants who meet the priorities established for the program are selected for processing first. The priority system is used only to determine the order in which applications will be processed. Once applicants are selected for processing, the order in which they actually receive funding will depend on how long it takes to conduct all required verifications and how long it takes the household to locate a property. Attachment 3-C provides a case study that illustrates the use of priorities in selecting applicants for processing.

The Agency gives processing priority to applicants who have an especially serious need for immediate assistance and for loans that are to the Agency's benefit. Applicants with higher priorities must be processed before those with lower priorities. Applicants who do not qualify for any priority should be processed only when no applications with a priority remain unprocessed. Within each priority category, applications should be processed in the order they are considered complete. The types of priorities are described below.

1. First Priority: Subsequent Loans to Correct Health and Safety Hazards

Current Agency borrowers who request subsequent loans to correct health and safety hazards will be selected for processing first.

2. Second Priority: REO Property or Transfer of Agency-Financed Property

Applicants interested in obtaining loans for purposes that are in the Agency's interest, but that do not directly involve removing hazards in a security property, will receive second priority for processing. These are loans related to the sale of Real Estate Owned (REO) property and loans related to the transfer and assumption of property owned by a program borrower.

3. Third Priority: Hardships

Applicants facing housing-related hardships will receive third priority for processing. Hardship circumstances include living in deficient housing for more than 6 months. Deficient housing is defined as a dwelling that lacks complete plumbing, lacks adequate heating, is dilapidated or structurally unsound, has an overcrowding situation that will be corrected with loan funds, or is otherwise uninhabitable, unsafe, or poses a health or environmental threat to the occupant or others. To retain the hardship designation, the resulting loan must eliminate the deficient housing issue which existed at the time of the application. Other hardship circumstances include current homeowners in danger of losing a property through foreclosure due to circumstances beyond their control, and other circumstances determined appropriate by the State Director on a case-by-case basis.

Example - Deficient Housing Scenario

The Smiths are an 8-person household currently living in a 2-bedroom apartment. They qualify for hardship processing because they are overcrowded with more than 2 people per bedroom. In order to retain the hardship priority, they would need to purchase a property (4 or more bedrooms) which corrects the overcrowding condition.

If the Smiths selected a 3-bedroom property, they would no longer qualify for the hardship processing/funding priority. However, assuming the dwelling meets the property requirements, a loan could be made on the dwelling when funds become available under the fifth/general priority, as the Agency has no minimum number of bedroom requirement based on household size.

4. Fourth Priority: Loans that Bring in Additional Resources

In order to use the Agency's limited resources most effectively, applicants who will obtain part of their funding elsewhere through a leveraging arrangement, who will contribute sweat equity through an Agency-approved Mutual Self-Help project, or who submitted their application through the certified loan application packaging process via an Agency-approved intermediary will receive fourth priority. To qualify for the priority as a leveraged loan, the leveraging arrangement must bring in supplemental funding that reduces the amount otherwise needed from the Agency by at least 20 percent when the supplementary funding is an affordable housing loan or by at least 15 percent when the supplementary funding consists entirely of grants, forgivable loans or deferred payment loans. Applications received via the Mutual Self-Help or the certified loan application packaging process via an Agency-approved intermediary need not have supplemental funding in order to qualify for this priority.

5. Fifth Priority: Applicants Who Do Not Qualify for the Above Priorities

C. Veteran's Preference

If applicants with equivalent priority status apply for assistance on the same day, applicants qualifying for a veteran's preference will receive priority processing. Applicants are eligible for a veteran's preference if they were discharged or released (except for a dishonorable discharge) from the active forces of the United States Army, Navy, Air Force, Marine Corps, or Coast Guard **and** served in active duty during one of the periods listed in Exhibit 3-2, or are the family of a service person who died in service during any of those periods.

Exhibit 3-2

Service Dates for Veteran's Preference

- April 6, 1917 through March 31, 1921
- December 7, 1941 through December 31, 1946
- June 27, 1950 through January 31, 1955
- A period of more than 180 days, any part of which occurred after January 31, 1955, but on or before May 7, 1975
- August 2, 1990 through January 2, 1992
- Any other prescribed by Presidential proclamation or law

D. Notifying Applicants Who Are Selected for Processing

When funds are available, applicants selected for processing will be sent Handbook Letter 11 (3550), Request Information, if updated and/or additional information is needed which may have expired since the eligibility determination.

Paragraph 4.3 E. describes the required verifications in detail. If an applicant fails to provide the needed information within 15 days, the application will be withdrawn.

Applicants who provide the required information, but cannot be funded that quarter, should be notified that they will be selected again when the next quarterly allotment becomes available. When funds become available in the subsequent quarter, the Loan Originator should contact the applicant to determine whether the household has experienced any changes in circumstances that might require new verifications before processing.

3.14 PURGING THE WAITING LIST

The waiting list should be purged periodically to ensure that the Agency's records are not burdened with applications from households that are no longer interested in the program. Once every 6 months, the Loan Originator must determine how soon funding will be available to process applications, and generate Handbook Letter 3 (3550), Waiting Period, for each unprocessed application on file. This letter notifies applicants that in order to keep their application active, they must return the response form attached to the letter or the application will be withdrawn. If an applicant does not respond within 15 days of the date of the letter, the application should be withdrawn.

3.15 VERIFICATIONS

Once an applicant is selected for processing, the Loan Originator should update any items which may have expired since the eligibility determination was made. Generally, the Loan Originator should consider copies of pay stubs and other available documentation before using 3rd party verification forms that must be initiated by the Agency. When verification forms are sent to a respondent to verify an applicant's information, they should be accompanied by Form RD 3550-1, Authorization to Release Information, and a pre-addressed, pre-stamped envelope. If the respondent does not return the verification form within 14 days, the Loan Originator must place a reminder telephone call. If a respondent returns an incomplete verification form or if additional information is needed, the Loan Originator should contact the respondent.

An applicant should not be penalized if a respondent refuses to provide the requested information. If the respondent does not respond to the verification form after 14 days and does not respond to a follow up call, the Loan Originator should move to the use of alternative methods of verifying the information. All conversations and follow up actions for obtaining verifications should be documented carefully. Detailed procedures for assessing the results of these verifications are provided in Paragraph 4.3 E.

A. Types of Verifications

1. Third-Party Generated Documents

The preferred form of verification are those documents which are readily accessible to the applicant and generated by a third-party to officially record their financial dealings or involvement with the applicant. Examples of third-party generated documents include paycheck stubs, bank statements, and benefit award letters.

2. Written Third-Party Verifications

Written third-party verifications tend to be used as an alternative form of verification. Correspondence should take place directly between the third party and the Agency (or loan application packager) using Agency forms. Transmission of the completed verification via fax or secured email is acceptable.

3. Oral Third-Party Verifications

Oral verifications should only be used if the applicant has worked for the employer for less than a year or the other types of verifications are inconsistent or suspicious. Oral verifications should be carefully documented in the running record.

B. Evaluating Verified Information

All verifications should be checked for completeness and for discrepancies from information provided by the applicant. Any discrepancies should be discussed with the applicant and clarifications should be documented carefully. Verification sources may be contacted directly, if necessary, to clarify information.

ATTACHMENT 3-A

LOAN APPLICATION PACKAGERS

The Agency supports partnerships with loan application packagers since packagers can provide outreach and presence in counties where a Field Office is not located; assist the Agency in reaching very low-income applicants; promote the program in underserved areas; prescreen potential applicants; counsel potential applicants on how to improve their ability to qualify for a home; ensure that applications are complete and accompanied by the supporting documentation needed for the Agency's decision.

The packaging types that undergo an Agency approval process (either directly by the Agency or through intermediary involvement) are noted below.

- Section 502 Direct Loan Program:
  - **Certified packaging** which includes an entity eligibility component as well as a packager's experience/training/testing component.
  - **Approved non-certified packaging** which includes an entity eligibility component but no packager's experience/training/testing component.
- Section 504 Loan Program:
  - **Public and private nonprofit packaging** which includes an entity eligibility component but no packager's experience/training/testing component.
- **Section 523 self-help grantee packagers** may package Section 502 and 504 loan applications under this attachment's guidance provided the applicant is not participating in a mutual self-help project.

Packagers that do not fit the types above are considered "other" and have no entity or packager eligibility component. As such, use of "other" packagers is discouraged if they charge a packaging fee and any fee they do charge is not an eligible loan purpose.

This attachment provides packaging fee tables, outlines general requirements which must be met by <u>all</u> packagers, and details how to become a certified packager or how to become an intermediary.

Section 502 Direct Packaging Type, Permissible Packaging Fee, and Eligible Loan Purpose:

The Section 502 direct packaging type and who is involved impacts the permissible packaging fee amount and whether the fee is an eligible loan purpose. Duplicate fees for packaging services are not permitted.

502 Direct Packaging Type	Permissible Packaging Fee	Regulated by 7 CFR Part 3550	Eligible Loan Purpose?
Certified packaging body with an intermediary	Up to $1,750 split between certified packaging body and intermediary	Yes 3550.52 (d)(6) and 3550.75	Yes
Certified packaging body without an intermediary (occurs when the State Director approves an opt-out request or when a state is not served by an intermediary)	Up to $1,500	Yes 3550.52 (d)(6) and 3550.75	Yes
Intermediary acting as a certified packaging body	Up to $1,500	Yes 3550.52 (d)(6) and 3550.75	Yes
Approved non-certified	Up to $350	Yes 3550.52 (d)(6)	Yes
Other non-certified packaging arrangements (packaging activities outside of the Agency's regulatory controls such as packaging by for-profit entities)	Not regulated and discouraged when a fee is charged	No	No. In addition, the Agency will review the impact of the fee to the applicant and will make the determination if it adversely affects their qualification.

Section 523 Grantees Who Package Section 502 Direct Non-Self-Help Loan Applications:

Applications submitted under the Section 523 Mutual Self-Help program are excluded from the certified loan application packaging process; and may not include a packaging fee as an eligible loan purpose since grantees receive grant funds to package (among other things) and are provided technical and management assistance. However, a grantee and its staff may package Section 502 or Section 504 non-self-help loan applications in accordance with the guidance in this attachment.

When grantees also serve as packaging bodies for Section 502 non-self-help loan applications there exists the possibility that an applicant originally interested in pursuing a self-help loan through Rural Development may ultimately decide to pursue a non-self-help loan through Rural Development. This change could occur early in the packaging process or after the loan application package is submitted to the Agency. The table below outlines what fee is permissible depending on when such a switch occurs.

<table>
<tr><th>Grantee's packaging type:</th><th>Switch occurs before the package is submitted to the Agency.</th><th>Switch occurs after the package is submitted to the Agency but before the Agency determines the applicant's eligibility (which is generally a small window of time).</th><th>Switch occurs after the Agency determines the applicant's eligibility.</th></tr>
<tr><td>Certified packaging body with an intermediary</td><td>Grantee must funnel the package through an intermediary to share a packaging fee of up to $1,750 with the intermediary.</td><td>Grantee cannot attempt to collect a packaging fee. The services provided would be considered part of their grant.</td><td rowspan="3">Grantee cannot attempt to collect a packaging fee. The services provided would be considered part of their grant.</td></tr>
<tr><td>Certified packaging body without an intermediary</td><td colspan="2">Grantee can charge a packaging fee of up to $1,500.</td></tr>
<tr><td>Approved non-certified packager</td><td colspan="2">Grantee can charge a packaging fee of up to $350.</td></tr>
</table>

To reduce the possibility of such a switch occurring and to account for disclosure requirements, grantees must make it clear to potential applicants upfront that they have the option of going the self-help or non-self-help route and explain what will occur should they switch from self-help to non-self-help (e.g. a packaging fee may be charged).

Section 504 Loan Packaging Type, Permissible Packaging Fee, and Eligible Loan Purpose:

The Section 504 loan packaging type and who is involved impacts the permissible packaging fee amount and whether the fee is an eligible loan purpose. The Section 504 program is not a part of the certified packaging process (e.g. intermediaries are not involved in reviewing Section 504 loan applications). Duplicate fees for packaging services are not permitted.

504 Loan Packaging Type	Permissible Packaging Fee	Regulated by 7 CFR Part 3550	Eligible Loan Purpose?
Public and private nonprofit organizations that are tax exempt under the Internal Revenue Code	Up to $750	Yes 3550.102 (d)(5)	Yes (Section 504 loan only)
Other packaging arrangements	Not regulated and discouraged when a fee is charged	No	No. In addition, the Agency will review the impact of the fee to the applicant and will make the determination if it adversely affects their qualification.

General Packaging Processing Guidance:

All packagers are expected to comply with this general packaging processing guidance regardless of their packaging type (certified, approved non-certified, self-help grantee, public/private nonprofit, or other). To begin, the packager will conduct a pre-qualification review of the potential applicant using unverified information to evaluate the likelihood that they will be eligible for the program. For the Section 502 loan program, this review will be completed using the borrower eligibility requirements found in Chapter 4 and the Worksheet for Computing Income and Maximum Loan Amount Calculator. For the Section 504 loan program, this review will be completed using the borrower eligibility requirements in Chapter 12 and the income segment of the Worksheet for Computing Income and Maximum Loan Amount Calculator. The Agency should not be asked to review the results of the pre-qualification.

If the potential applicant appears to be ineligible for the program (at any time in the packaging process), the packager should counsel them on ways to improve their situation. Packagers should not submit loan application packages to the Agency (or to an intermediary if present) that are unlikely to be determined eligible by the Agency staff.

If the potential applicant appears to be eligible for the program, the packager should:

- Provide the potential applicant with the required disclosure letter. The letter must follow the format provided in this attachment and must be signed by the potential applicant.
- Strongly discourage the potential Section 502 direct program applicant from locating a property until the Agency receives their application package and issues Form RD 1944-59, Certificate of Eligibility (COE).
- Collect all the items that the Agency will need to consider the package complete. The Application Submittal Cover Letter (as provided in this attachment) must be completed and included in the submitted loan application package. (For the certified process: If an intermediary is present, the packager will send the items to the intermediary for a quality assurance review. Once the package is accepted by the intermediary, the package will be sent to the Agency via eForms.)

    - The packager will need to obtain the potential applicant's credit report to conduct a preliminary credit analysis. Any cost for the credit report is considered part of the packaging fee and should not be charged to the applicant. The Agency will not furnish a credit report for packaging purposes.
    - When gathering verifications, the packager should use the preferred sources outlined in Chapter 4. Preferred sources generally do not involve asking third-parties to complete an Agency form and can be obtained with information readily available to the applicant (such as pay stubs, award letters, etc.). If a third-party verification must be obtained because the preferred source involves a fee, the packager may request and receive the form directly.
    - Packagers should only gather documents needed for the specific application. By way of examples, do not obtain written verification of employment (Form RD 1910-5) when paystubs, the preferred verification method, are available; and do not obtain a Landlord's Verification (Form RD 1944-60) when the applicant seemingly qualifies for a streamlined credit history analysis. Only collect and remit items needed for the Agency's decision.

Required Disclosure Letter: All packagers, regardless of packaging type, must give potential applicants this letter after inserting the appropriate letterhead and information where indicated with brackets. Once signed by the potential applicant, the packager may assemble the application and submit to the Agency in accordance with the guidance in this attachment.

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[**Insert applicable letterhead**: If under the certified packaging process, this required disclosure letter must be on the qualified employer's letterhead. If outside the certified packaging process, the packager's letterhead can be used.]

Dear Potential Applicant:

After talking with you, we think that a direct Section [**insert 502 or 504, whichever is applicable**] single family housing loan through the Rural Housing Service (known as the "Agency") is a good loan for you. The Rural Housing Service is an Agency of the United States Department of Agriculture.

We **do not** work for the Agency; we are an outside loan application packager. [**Insert name of organization**] will assist you in applying for a loan through the Agency. We do not guarantee that your loan application will be approved or funded by the Agency.

For our services, you will pay a loan application packaging fee of [**insert applicable fee amount based on the packaging fee tables in Attachment 3-A]**. The fee is due only if the Agency approves you for a loan and the loan closes. We will assist you in finding means to cover the fee from various sources. To the extent other sources are unavailable, we may waive the fee. [**If the organization meets the regulatory requirements of 7 CFR 3550 insert, "Under certain circumstances, part or all of this fee may be included in your loan."**]

You are not required to work with a loan application packager to receive assistance from the Agency. You may work directly with the Agency and avoid the loan application packaging fee. Working with our organization provides you with the following benefits:

- We will act as a go-between for you and the Agency.
- We will make sure that your paperwork is in order, which should shorten the time it takes for the Agency to make an eligibility decision. All information collected will be maintained with the highest degree of confidentiality.
- [**Insert the following statement if and only if the loan application package will be funneled through an Agency-approved intermediary: "Your application will be considered a fourth funding priority when funds are insufficient to serve all program eligible applicants."]**

[**Insert the following if a Section 502 loan is being requested**, "You are strongly discouraged from identifying a property or entering into a purchase agreement until such time the Agency issues a Certificate of Eligibility (COE). If and when a COE is issued by the Agency, we will help you gather the information the Agency will need on a property."]

We look forward to working with you in preparing an application for an Agency direct loan.

Respectfully,
[**Insert name of organization**]

Please complete, sign/date, and return this letter to us so that we can serve as your loan application packager.

WAIVER OF PROVISIONS TO THE PRIVACY ACT OF 1974

To serve as your advocate with the Agency, we need to be kept informed of the Agency's processing of your application and we may need access to items directly obtained by the Agency. By signing below, you authorize the Agency to release to and discuss with **[insert name of organization and the name of the intermediary if present**] any information we may seek or request from the Agency's records concerning your application for Agency assistance.

I/we acknowledge these facts and confirm my/our desire to work with [**insert name of organization**]. I/we received this letter on the____of_____20_____.

Potential Applicant's Name/Signature/Date (spell out full name and then sign)

Potential Co-Applicant's Name/Signature/Date (spell out full name and then sign)

_____

_____

Packaging Phase 1: Application Submittal Cover Letter

This cover letter must be used to submit all packaged loan applications to the Agency. Insert the appropriate letterhead and information where indicated with brackets; and for each item listed in the letter, either checkmark and include the item in the package or mark it as not applicable (N/A). Completion and submission of this cover letter along with all the checkmark items constitutes a complete loan application package; and is phase 1 of the loan application packaging process.

[Insert applicable letterhead: If under the certified packaging process, use the qualified employer's letterhead. If outside the certified packaging process, the packager's letterhead can be used.]

[Insert date of submission

Dear [**insert "Rural Development" if working without an intermediary or insert the name of intermediary if working with one**]:

The following documents are submitted via [**insert the method of submission (eForms, email, mail, etc.)**] to your office for review of the loan application package for [**insert applicant(s) name**]:

— A copy of [**insert "Attachment 3-J" if Section 502 or "Attachment 12-E" if Section 504**] with all the items applicable for the applicant(s) marked and included in the package.
— Worksheet for computing income.
— Maximum loan amount calculator (if Section 502).
— Copy of the credit report and preliminary credit analysis.
_____Applicant(s) has a valid credit score(s) of (640 or higher if Section 502 or 620 or higher if Section 504) and no significant delinquency.
_____Applicant(s) credit score(s) is not valid or less than the threshold.
_____Form RD 1944-60, Landlord's Verification, if score is not valid or less than the threshold.
_____Applicant(s) explanation of derogatory credit (if applicable).
— A loan application narrative which includes an eligibility analysis (income, creditworthiness, repayment ability, and payment shock (if applicable)), support of any exceptions being requested, and an overall recommendation on the loan application request.
— A signed copy of the required disclosure letter found in Attachment 3-A.

Sincerely,

[insert packager's name and qualified employer if applicable]

Certified packagers routing through an intermediary will submit the application to the intermediary who will conduct a quality assurance review prior to transmitting the loan application package to the Agency via eForms. All other packaging types will submit the application directly to the Agency.

Upon receipt of a packaged loan application, the Agency will:

- Process the application in accordance with program guidance. As a nationwide program with guidance set at the national level, Agency staff should not modify the definition of a complete package or ask packagers to perform functions or provide materials over and above what is detailed in program guidance.
- Order a tri-merge credit report through UniFi (regardless of the type of credit report obtained by the packager).
- Share processing information and updates with the loan application packager (including self-help grantees serving as packagers) or intermediary (if present) as information is shared with the applicant and when critical processing activities have occurred. Critical processing activities include but are not limited to: receipt of the loan application package, information requests, changes to income calculations or a requested loan amount, the eligibility determination, receipt of an appraisal, the underwriting decision, and preparation for closing. When correspondence is sent to the applicant, the packager or intermediary (if present) will be copied.

If and when the Agency has issued a COE, the packager will assist the applicant with phase two of the loan application packaging process which is assembling and submitting the property information.

Packaging Phase 2: Property Submittal Cover Letter

This cover letter must be used to submit property information for packaged loan application previously submitted to the Agency under phase 1. Insert the appropriate letterhead and information where indicated with brackets; and for each item listed in the letter, either checkmark and include the item in the package or mark it as N/A. Completion and submission of this cover letter along with all the checkmark items constitutes a complete property submission; and is phase 2 of the loan application packaging process. In the event the property is already identified at the time phase 1 or the packaged loan application is for repairs, the property submission should be submitted simultaneously with the phase 1 submission.

[**Insert applicable letterhead:** If under the certified packaging process, use the qualified employer's letterhead. If outside the certified packaging process, the packager's letterhead can be used.]

[**Insert date of submission**]

Dear [**insert the name of intermediary if present since they will do a quality assurance review on the property submission before sending it to Rural Development or insert "Rural Development" if an intermediary is not present**]:

The following documents are submitted via [**insert the method of submission (email, mail, etc.)**] to your office for review of the loan application package for [**insert applicant(s) name**]:

- A fully executed purchase agreement with applicable addendums
- A copy of the property eligibility website determination that confirms the property is in an eligible rural area
- For existing properties:
  - Copy of a whole house inspection
  - Identification of proposed repairs
  - Proposal for completing repairs (e.g. amended purchase agreement indicating seller will repair prior to closing, buyer is providing funds, applicant is requesting loan funds, etc.)
- Copy of deed or legal description
- Copy of existing survey or plot plan drawn to scale (if available)
- Property tax history and/or assessment information sheet (online sources acceptable)
- For new construction or significant repairs:
  - Certified plans
  - Specifications
  - Cost estimates
- Other applicable items:
  - Packaging fee invoice (for the certified packaging process, invoice must identify how the fee will be shared between the certified packaging body and the intermediary – for instance: $500 to the certified packaging body and $1,250 to the intermediary)

If you have any questions regarding this submittal, please contact [**insert packager's name**] at [**insert phone number and email**].

[**Insert packager's name and qualified employer if applicable**]

Upon receipt of the property information, the Agency will:

- Issue the Loan Estimate; the packaging fee must be shown on the Loan Estimate under "Origination Charges" for regulated packaging activity
- Order the flood hazard determination and complete an environmental analysis on the property
- Review/accept plans/specs or repair proposals
- As applicable, order an appraisal, review/accept the appraisal upon receipt
- Determine property eligibility
- As it relates to the packaging fee:
  - Confirm the fee amount listed on the invoice matches the disclosure letter issued by the packager/intermediary and signed by the applicant
  - Confirm the fee amount is within the permissible limit
  - Determine how the packaging fee will be paid, considering that:
    - The fee as stated on the invoice cannot be altered by the Agency even if it cannot be fully covered by loan funds
    - The fee may be paid with any combination of loan proceeds (assuming adequate loan to value ratios), affordable housing products, gift funds, seller contributions, and/or buyer funds
    - Any reduction or waiver to the fee can only be authorized by the packager and intermediary (if present) and should be reflected in an updated invoice
- Complete loan underwriting and
  - Approve the loan and obligate loan funds using the applicable packaging program type code; issue Form RD 3550-7, Funding Commitment and Notification of Loan Closing, to the applicant; and prepare for loan closing; or
  - Deny the loan request and provide the applicant with the applicable rights

Packagers should be well acclimated with 7 CFR Part 3550 and Handbook-1-3550, both of which can be found at http://www.rd.usda.gov/publications/regulations-guidelines/handbooks. Packagers are required to:

- Comply with the Equal Credit Opportunity Act and the civil rights requirements contained in RD Instruction 1901-E.
- Prepare an Affirmative Fair Housing Marketing plan (AFHMP), if they intend on submitting five or more loan application packages to purchase and/or construct dwellings in the same subdivision. The completed AFHMP must be submitted to the local Rural Development office for review and approval.
- Understand and (if applicable) comply with the SAFE Act. The SAFE Act, which is a Federal regulation with state-level enforcement and possible requirements over and above the federal minimum standards, addresses those engaged in loan originator activities. Rural Development does not enforce or monitor SAFE Act compliance.

- Provide the Agency with complete, accurate, and timely information needed to comply with the disclosure requirements under the Truth in Lending and Real Estate Settlement Procedures Act Integrated Mortgage Disclosures. Packagers are not authorized to issue the Loan Estimate or Closing Disclosure on behalf of the Agency.
- Be in good standing with the Government (e.g. not suspended or debarred from participating in Federal programs).

Please note that the packager's performance will be monitored by the Agency. If the packager submits a significant number of packages that are incomplete and/or ineligible, the State Director may determine their services to be unacceptable

Items specific to the Certified Loan Application Packaging Process:

The certified loan application packaging process involves three distinct parties:

- **Agency-certified loan application packager.**
  - An individual certified by the Rural Housing Service (RHS) to package section 502 loan applications. Certification is verified by the intermediary through whom application packages are routed.
  - Must be employed (employee or independent contractor) by a qualified employer.
- **Qualified employer**.
  - An affordable housing nonprofit organization, public agency, tribal housing authority, or State Housing Finance Agency that meets the requirements of § 3550.75 (b)(2).
  - Involved in the 502 direct program certified loan application packaging process.
- **Agency-approved intermediary**.
  - An affordable housing nonprofit, public agency, or State Housing Finance Agency approved by RHS to perform quality assurance reviews on packages prepared by Agency-certified loan application packagers through their qualified employers.
  - National Office reviews/approves applications and will update the Agency's website as new intermediaries are approved.

Becoming a Certified Packager:

An individual interested in becoming a certified packager should take the following steps:

1. Ensure that you are employed by a qualified employer who meets the requirements stated above. Employment can be in various forms such as: a contract basis, part-time or full-time employee.

2. Become familiar with the SFH Direct Loan Application Packagers resource page at https://www.rd.usda.gov/direct-loan-application-packagers. This page contains notices of upcoming certified loan application packaging trainings, training webinars, the intermediary coverage map, and other resources related to packaging Section 502 direct loan applications.

3. Contact the intermediary(ies) in the state(s) in which you wish to package loans. Each intermediary will have an agreement for you to review/sign in order to package loan applications through them. You may work with multiple intermediaries depending on the service area you wish to cover.

4. Once you have identified with an intermediary as being part of the certified packaging process, you have 12 months to take the loan application packaging course and pass the corresponding test. It is your responsibility to provide evidence to the intermediary that you have completed this requirement. During the 12-month period, you may package loans and funnel them via the intermediary who will conduct the quality assurance review and provide technical assistance.

Loan Application Packaging Course:

Under the certified packaging process, the course requirements outlined in 7 CFR 3550.75(b) (1)(iii),(b)(3)(vii) and (c) can be fulfilled by the three-day classroom sessions offered by NeighborWorks, the Housing Assistance Council, and Rural Community Assistance Corporation. Please note that:

- Upcoming trainings are listed under the SFH Direct Loan Application Packagers resource page at https://www.rd.usda.gov/direct-loan-application-packagers.
- Due to limited training availability, the Agency may approve parties to participate in the certified packaging process even if the training has not been completed and provided all other requirements are met upfront; however, the participation in the certified packaging process is contingent upon the party's successful completion of the course requirements within a reasonable timeframe. Parties will have one year from the date of being added to the certified packaging process to complete the course requirements and provide evidence to the appropriate party (intermediary or Agency depending on the situation) that the requirements have been fulfilled. Failure to provide the necessary evidence within the allotted time will result in immediate removal from the certified packaging process. For certified packagers funneling through an intermediary, the intermediary is responsible for monitoring compliance with the course requirements and notifying the certified packager of their removal from the process if not met. For certified packagers with an approved opt-out, the State Office is responsible. Once removed, the party won't be able to participate in the process until the course requirements have been met (and all other requirements continue to be met).
- Course participants should take the corresponding test within 30 days of completing the course. A score of 70 percent or higher is needed to pass. If the participant does not pass the initial test, they can retry up to two more times within 90 days from taking the course. Failure to pass the test after three attempts will result in the need to retake the three-day classroom training.
- A recent, now former, Rural Development employee with five or more years of residential loan experience acquired while working in the Agency's single family housing programs is exempt from the course requirements.
- After having taken the course and passing the test, the Agency may require a certified packager to retake the course/test in order to continue participating in the certified packaging process. This requirement may be triggered by an extended period of packaging inactivity, unacceptable packaging performance, a recommendation from the intermediary, or other justifiable reason.

Intermediary Approval:

Entities interested in becoming an Agency-approved intermediary are encouraged to view the training webinars "Role of the Intermediary" and "How to Become an Intermediary" before beginning the application process. Both webinars can be found on the SFH Direct Loan Application Packagers resource page at https://www.rd.usda.gov/direct-loan-application-packagers.

To apply to be an Agency-approved intermediary under the certified packaging process, an interested party must furnish sufficient documentation to demonstrate to the Agency's satisfaction that they meet each of the conditions specified in 7 CFR 3550.75(b)(3) and as further detailed below. This documentation constitutes the application. Applications to be an Agency- approved intermediary are welcomed at any time and emailed to SFHDIRECTPROGRAM@usda.gov. The application will be reviewed by National Office with input from the applicable State Office(s). Decisions by the Agency on intermediary applications are not appealable to the National Appeals Division.

Once approved, the Agency will execute a Memorandum of Understanding (MOU) with the intermediary. A copy of the MOU and a list of approved intermediaries can be found on the SFH Direct Loan Application Packagers resource page at https://www.rd.usda.gov/direct-loan-application-packagers.

Instructions: For each eligibility requirement, complete the cover sheet to identify the information being provided and enter the date of the document being submitted. If an item is not applicable, enter "N/A".

COVER SHEET FOR SUBMITTAL OF INTERMEDIARY APPLICATION

Based on our submittal of the information below, [**insert name of the entity submitting an application**] seeks to become an approved intermediary for the certified loan application packaging process in [insert the state(s) in which you are applying to be an intermediary]:

Eligibility Requirement	Identify the documentation being submitted as evidence this requirement has been met	Document Date
*Be a public agency or a Section 501 (c)(3) nonprofit organization as evidenced by the organization's Internal Revenue Service (IRS) nonprofit determination letter for 501 (c) (3) status. A public agency may include: (a) Any state board, commission, committee, department, educational institution, or other state agency which is created by or pursuant to state statute, other than courts and the legislature; (b) Any county, city, school district, special purpose district, or other municipal corporation or political subdivision of the state; (c) Any subagency of a public agency which is created by or pursuant to statute, ordinance, or other legislative act, including but not limited to planning commissions, library or park boards, commissions, and agencies; and (d) Any policy group whose membership includes representatives of publicly owned utilities formed by or pursuant to the laws of this state when meeting together as or on behalf of participants who have contracted for the output of generating plants being planned or built by an operating agency.	_____ IRS nonprofit determination letter for 501 (c) (3) status _____State statute _____Ordinance _____Other legislative act (identify act below): _____Formation of publicly owned utilities	
*Be in good standing in the state(s) of its operation as evidenced by a Certificate of Good Standing or equivalent documentation from the applicable	_____Certificate of Good Standing from the Secretary of State _____Recent State filings	

Eligibility Requirement	Identify the documentation being submitted as evidence this requirement has been met	Document Date
*Have the capacity to serve multiple qualified employers and their Agency-certified loan application packagers throughout an entire state or entire states and have the capacity to perform quality assurance reviews on a large volume of packaged loan applications within three to five business days of receipt.	_____Narrative describing current processing volumes/staffing and projected processing volumes/staffing; and indicate how volumes will be addressed within timeframes	
Identify what state or states the interested party proposes to serve and provide details on their capacity to serve the identified state(s).	_____ Narrative identifying states to be served and capacity	
*Be engaged in affordable housing in accordance with their regulations, articles of incorporation, or bylaws.	_____Copy of articles of incorporation _____Copy of bylaws _____Copy of regulations	
*Be financially viable and demonstrate positive operating performance as evidenced by an independent audit paid for by the applicant seeking to be an intermediary.	_____Copy of most recent independent audit for [insert year]	
*Have at least five years of verifiable experience with the Agency's direct single family housing programs (specifically the Section 502 direct program, the Section 504 repair programs, and/or the Section 523 mutual self-help housing technical assistance program). Verifiable experiences would include, but are not exclusive to, routinely leveraging resources for individual transactions (e.g. providing affordable housing products to Agency borrowers), packaging loan applications, and/or being a self-help grantee or technical and management assistance contractor. To the greatest extent possible, the submission should detail collaborations and dollars leveraged.	_____Narrative detailing how/what experience requirements have been met	

Eligibility Requirement	Identify which documentation submitted as evidence this requirement has been met	Document Date
*Demonstrate that its quality assurance staff has experience with packaging, originating, or underwriting affordable housing loans. Provide a resume for each quality assurance staff member. The breadth and depth of their combined skills and qualifications will be considered during the Agency's application review process.	_____ Resume provided for [insert name(s) of quality assurance staff]	
Provide a quality control plan that is customized to the applicant's organization. The quality control plan must show there are controls in place to process application packages that will likely result in an eligibility determination by the Agency. The plan should include at a minimum, but not limited to: (1) procedures for obtaining and evaluating loan application documents (e.g. credit checks and income verification); (2) measures the applicant will take to prevent the submission of incomplete or ineligible application packages to the Agency; (3) the standard operating procedures for employees who will be involved with or affected by the quality control process; and, (4) procedures for ensuring accurate information is submitted to the Agency.	_____ Copy of quality assurance plan which addresses: _____ Item 1 _____Item 2 _____Item 3 _____Item 4	
Ensure that their quality assurance staff completes an Agency-approved loan application packaging course reasonable amount of time if selected.	_____ Evidence of course attendance by staff _____ Evidence of passing test successfully OR Certification that this requirement will be completed within a reasonable timeframe as specified by the Agency should the application be approved	

Eligibility Requirement	Identify which documentation submitted as evidence this requirement has been met	Document Date
Provide a letter jointly signed by the organization's Executive Director and Board President affirming the organization will not be the developer, builder, seller of, or have any other such financial interest in the properties for which the application packages are submitted by the organization as an intermediary pursuant to this notice. NOTE: An intermediary that is also a Community Development Financial Institution (CDFI) will not be considered noncompliant when CDFI funds are tied to the transaction.	_____ Copy of signed letter	
Provide a training and support plan that focuses on the measures the applicant will take to provide supplemental training, technical assistance, and support to certified loan application packagers and qualified employers to promote quality standards and accountability. (Note that the Agency may require implementation of Agency developed and/or approved training and support plan once accepted as an intermediary pursuant to this notice.)	_____ Copy of training and support plan	
Letter of recommendation from the Rural Development Housing Program Director for each state you are proposing to serve.	_____ Copy of letter/email from [insert the applicable state(s)]	
Have the authorized representative for your organization sign the standard Memorandum of Understanding (MOU) between the intermediary and the Agency, which can be found at: https://www.rd.usda.gov/direct-loan-application-packagers. Other than inserting the entity's name, the intermediary's contact person, and the name/title of the authorized representative signing on behalf of the organization, no other changes to the MOU can be made. If unauthorized changes are made, the MOU will be nullified. If approved, the Agency will sign and fully execute the MOU.	_____MOU signed/dated	

Identify main point of contact for intermediary. This is the person who may be contacted by the Agency, potential packagers, and potential applicants for information.	Name: Title: Address: Phone: Email: Fax: Intermediary website:
Identify the person who is authorized to sign a MOU on behalf of the entity.	Name: Title: Address: Phone: Email: Fax:

*A State Housing Finance Agency (HFA) need not demonstrate meeting these items, given the State's HFA purpose, vision and structure.

_____ _____
Signature of authorized representative Date

Intermediary Involvement:

If a state is served by multiple intermediaries, a certified packaging body may choose which intermediary through which to funnel their packaged loan applications.

State Directors will require all certified packaging bodies to funnel packaged loan applications through an intermediary (if present in the state) unless the certified packaging body requests and meets the requirements for an opt-out as outlined below. If a certified packaging body serves multiple states, the request must be made on a per state basis. These opt-out requirements will help ensure that opt-out requests are handled in a consistent manner nationwide.

Requests To Work Without An Intermediary:

State Directors may approve an opt-out request from a certified packaging body when the request is supported by the intermediary based on the quality and quantity of loan application packages submitted by the certified packaging body through the intermediary. At a minimum, the certified packaging body must have funneled at least 20 loan application packages through the same intermediary and have funneled packages through the same intermediary for a period of at least 12 months before an opt-out can be considered. With these minimums in mind, the intermediary will support the request if the certified packaging body has a 90% or higher overall success rate.

The overall success rate is based on 1) the number of applications submitted which are complete and 2) the number of loans closed vs. applications submitted.

To calculate the overall success rate for an opt-out request, the rate for complete applications received and applications closed will be averaged.

Cases where an applicant chose to withdraw their application despite being eligible based on a well-documented loan application package will not be counted against the packager (i.e. the application will be counted as a complete application).

The intermediary will apply the following conditions when the request cannot be initially supported; these conditions specify when a subsequent opt-out request will be supported.

Sample calculations

Complete application rate calculation:

Applications submitted: 10
Applications complete: 7
7 divided by 10 = 70% success rate

Overall success rate calculation:

Applications complete: 70%
Applications closed: 95%
Total: 165%

165% divided by 2 = 82.5% overall

- Overall success rate of 85% - 89.99% at the time of the original opt-out request: Requires an additional three months of oversight and support by the intermediary and five or more complete application packages with a 90% or higher success rate.
- Overall success rate of 80% - 84.99% at the time of the original opt-out request: Requires an additional six months of oversight and support by the intermediary and ten or more complete application packages with a 90% or higher success rate.
- Overall success rate of less than 80% at the time of the original opt-out request: Requires an additional 12 months of oversight and support by the intermediary and 20 or more complete application packages with a 90% of higher success rate.

A statement of support from an intermediary is not required when a State Housing Finance Agency requests an opt-out through the State Director.

When an intermediary is not involved because an opt-out request was approved by the State Director or because an intermediary doesn't cover a particular state, it will fall upon the State Office to:

- Ensure that a certified packaging body meets and continues to meet the conditions outlined in 7 CFR 3550.75(b)(1), (b)(2), (d), and (e).
- Enter into a MOU with the certified packaging body using the standardized format (which can be found in SharePoint).
- Update the Agency's state-level website using a standardized template to identify certified packaging bodies with an approved opt-out.

An Intermediary's Performance Elements

Intermediaries enter into a MOU which details performance elements. While the MOU contains other requirements, which are also considered when assessing performance, the minimum performance elements and their rating structure are defined below:

1. The intermediary will outreach to parties that could potentially serve as a certified packaging body.
2. It is expected that packaged loan applications funneled through the intermediary will receive a high rate of Agency approval (with minimal need for the Agency to request additional information). The following measures (applied to both applications received and closed) will be used, on a per state basis, for timeframes to be determined by the Agency. These rates will be calculated using the same method as identified earlier in this attachment:
    a. Success rate of 90% or higher: Excellent.
    b. Success rate of 85% - 89.99%: Meets.
    c. Success rate of 80% - 84.99%: Needs to improve in the following quarter or face possible revocation.
    d. Success rate of under 80%: Subject to immediate revocation of intermediary status.
3. On a per state basis and for timeframes to be determined by the Agency, at least 30 percent of the applications submitted under this MOU must be from eligible very low-income applicants, with the balance from eligible low-income applicants.

Based on these criteria, a scoring system will be used to rate overall performance during a 12 month period:

# Minimum Performance Elements Met	Status of MOU	Action Required By The Intermediary	Improvement Timeframe
3 out of 3	Excellent	None	N/A
2 out of 3	Acceptable	Emphasis on improving deficient area	Within the next quarter
1 out of 3	Unacceptable	Immediate action to improve in deficient areas	If no improvement within the next quarter, MOU is revoked
0 out of 3	Immediate revocation	N/A	N/A

ATTACHMENT 3-B

FOLLOW-UP QUESTIONS FOR FORM RD 410-4, UNIFORM RESIDENTIAL LOAN APPLICATION

Form RD 410-4, Uniform Residential Loan Application is designed to obtain a broad range of applicant information. To accurately process an Agency loan, however, the Loan Originator must review the application carefully and ask follow-up questions to ensure that all relevant information has been obtained. This attachment provides a list of questions that may be useful for each section of the application. Not all questions will be needed for all applicants, and additional information may be needed in some cases.

I. Type of Mortgage and Terms of Loan

- None.

II. Property Information and Purpose of Loan

- Determine whether the applicant intends to purchase a Real Estate Owned (REO) property or assume a loan from a program borrower.
- Determine whether the applicant is interested in a leveraged loan or if the application was submitted by a packager.
- If the applicant wishes to refinance, obtain details about why and also inquire about the type and condition of their home. The Agency will refinance loans only in limited circumstances.
- If the applicant will not reside in the property, confirm that the applicant wishes to obtain a nonprogram loan.
- If the applicant is requesting a subsequent loan to improve the property, determine whether the repairs are necessary to maintain the security, or to meet the family's housing needs.

III. Borrower Information (as well as Additional Information Required for RHS Assistance)

- Name, age, and relationship of all household members.
- Confirm number and ages of dependents.
- Any foster children or foster adults?

- Any full-time students?
- Any household members with disabilities?
- Any elderly household members?
- If the household qualifies as an elderly household, does the household have extensive medical expenses?

IV. Employment Information (as well as Additional Information Required for RHS Assistance)

- If there is an adult household member who has recently changed jobs, determine the reason for the job change.
- If there is an adult household member for whom no employer information has been provided, determine whether the person is employed.
- If any adult household member is unemployed, determine for how long.
- Discuss employment gaps in excess of 30 days with the applicant.

V. Monthly Income and Combined Housing Expense Information (as well as Additional Information Required for RHS Assistance)

- Verify that income listed is comprised of all sources of income, including income from applicants, spouses of applicants (even if the spouse is a minor), and any other adult household members.
- If the income history reveals significant fluctuations, discuss the income trends with the applicant.

VI. Assets and Liabilities

- If the household reports owning real estate, discuss the type of property owned to verify that the reported market value is reasonable.

VII. Details of Transaction

- If completed by applicant, review information to confirm accuracy.
- If the applicant reports any judgments, bankruptcies, lawsuits, foreclosures or deeds in lieu of foreclosure, or delinquencies on a Federal debt or any other obligations, determine the particular circumstances.

VIII. Declarations

- If the applicant reports any alimony, child support, or separate maintenance obligations, verify that it is included as a liability in Section VI of Form RD 410-4.
- If the applicant has applied for a nonprogram loan, determine whether any part of a proposed down payment will be borrowed, since other debt will affect repayment ability.
- If the applicant is not a U.S. citizen, verify that he or she is a qualified alien.
- If the applicant does not intend to occupy the property, verify that the applicant intends to obtain a nonprogram loan.
- If the applicant has had ownership interest in a property, determine how that interest was disposed of to ensure that it was not disposed of at below market value.

IX. Acknowledgment and Agreement

- None.

X. Information For Government Monitoring Purposes

- None.

Additional Information Required for Agency Assistance

- If the applicant has received prior assistance, determine whether there were any repayment problems, and in the case of a Section 504 loan or grant, whether the assistance limit has been reached.

- If the applicant is a veteran, or family of a deceased service person, determine the dates of service, the type of discharge received, and the date of death, if deceased.

- If the applicant lists a household member as disabled, determine whether the household may be entitled to a deduction for the costs of dependent care to allow a household member to further their education or to work, and whether any reasonable accommodations may be required.

- If the applicant lists child care costs, determine whether child care is needed to allow a household member to further their education or to work (if it is to allow the applicant to work, determine whether the salary the applicant receives is equal to or greater than the cost of child care and the age of the child for which care is being provided).

- If the applicant indicates that the present dwelling has physical problems or is overcrowded, obtain details about the nature and duration of the problem.

- If the applicant did not include alimony, child support, or separate maintenance information in Section V of Form RD 410-4, make sure the information is provided.

ATTACHMENT 3-C

CASE STUDY - PROCESSING PRIORITIES

The Field Office currently has funds available only for borrowers in Big Gap County which has been designated as a high-priority needs area for which the Agency has a special set-aside. The Loan Originator must review the following applications to process any that can take advantage of the set-aside funds and to select applications for processing in anticipation of additional funding not designated for set-asides that will be available soon. Part I provides information on the applicants, their current situations, and the dates of the applications. Part II illustrates the analysis and ranks the applications in the order of selection.

Part I. Applicants

Application Complete Date	Applicant	Description
9/5	De Moura	Ms. De Moura has owned her home, which was financed by a local lender for 3 years. Last year, she was laid off from her job but has found a new position that pays only half the salary. As a result, she is behind in her loan payments and the lender has accelerated her loan. Ms. De Moura would like to refinance with Agency funds.
9/6	Sapienza	The Sapienzas used a Section 502 loan to purchase an existing home. They are requesting a subsequent 502 loan to install a retaining wall because of erosion in the backyard.
9/7	Yao	The Yaos wish to purchase a newly-built house. They would like to obtain a Section 502 loan and their loan application package was submitted via an Agency-approved intermediary.
9/8	Jones	The Joneses moved into the area 4 months ago and would like to purchase an existing house using Section 502 funds because the rental unit the family occupies is too small for the family and has an inadequate heating system.
9/9	Garcia	The Garcias would like to purchase a home from Greenes who have been paying regularly on their Section 502 loan but are now transferring out of state.
9/9	Olsen	The Olsens wish to purchase a Real Estate Owned (REO) property using Section 502 funds. In addition, Mr. Olsen served in active military duty between June 27, 1950 and January 31, 1955.

Application Complete Date	Applicant	Description
9/14	Brown	The Browns used a Section 502 loan to purchase an existing home. Their septic system no longer works properly and needs significant repairs and they are requesting a subsequent 502 loan to repair it. They are 2 payments behind on their initial loan.
9/15	Johnson	The Johnsons would like to purchase a home from a current Agency borrower but have income well above the low-income limit.
9/16	Smith	The Smiths would like to build a home on a site in Big Gap County.
9/21	Pawlikowski	The Pawlikowskis have been without adequate plumbing for 8 months. They would like to purchase a newly built house using Section 502 funds.
9/21	Deitrich	The Deitrichs would like to build a new house because they feel their current 3-bedroom home is too small to accommodate Mr. and Mrs. Deitrich, their 3 children, and his Aunt Greta, who has recently moved in. They wish to fund the construction through a Section 502 loan.
9/23	Whitfield	The Whitfields wish to purchase a home from an Agency borrower who has an accelerated account.

Part II. Establishing Priorities

Selection Order	Applicant	Application Complete Date	Priority	Priority Status
N/A	Johnson	9/15	N/A	Although the Johnsons are not program-eligible, they may purchase the home under nonprogram terms. No additional funds are required because a nonprogram borrower can only assume the outstanding balance at new rates and terms. Processing need not be delayed until additional funds are available.
N/A	Smith	9/16	N/A	The Smiths receive funding immediately from the set-aside.
1	Brown	9/14	1	The Browns receive first-priority processing for new funds because they are requesting a subsequent loan to remove health and safety hazards. The Loan Originator should counsel the Browns to contact the NFAOC to resolve the delinquency. The Loan Originator may need to coordinate with NFAOC about whether a loan or protective advance is most appropriate.

Selection Order	Applicant	Application Complete Date	Priority	Priority Status
2	Olsen	9/9	2	Since the Olsens are purchasing an REO property, the Agency gives second-priority processing to their request.
3	Garcia	9/9	2	The Garcias receive second-priority processing because they are assuming a home from an Agency borrower. Although their application was completed on the same day as the Olsens', the Olsens receive priority because Mr. Olsen qualifies for a veteran's preference.
4	Whitfield	9/23	2	The Whitfields receive second-priority processing because they are assuming a loan from an existing Agency borrower. Purchasing a home from a borrower who has an accelerated account does not give the Whitfields processing priority over the Garcias who also are assuming a loan from a current borrower. Within priority categories applications are selected by application date.
5	De Moura	9/5	3	Ms. De Moura receives third-priority processing because she is in danger of losing her home through foreclosure due to circumstances beyond her control.
6	Pawlikowski	9/21	3	Since the Pawlikowskis have been living in deficient housing for at least 6 months, they receive third-priority processing.
7	Yao	9/7	4	The Yaos receive fourth-priority processing because their loan application package was submitted via an Agency-approved intermediary
8	Sapienza	9/6	No Priority	The Sapienzas do not receive priority processing; they are requesting a subsequent loan to make needed repairs for a condition that, at this time, does not constitute a health and safety hazard. The Sapienzas application will be processed after all applicants with priorities have been processed.

Selection Order	Applicant	Application Complete Date	Priority	Priority Status
9	Jones	9/8	No Priority	The Joneses do not receive priority processing. Although they have been living in deficient housing for 4 months, they are currently 2 months short of receiving second-priority processing. If within 2 months funding is still not available, the Joneses would receive second-priority processing, and would be processed before the Olsens.
10	Deitrich	9/21	No Priority	The Deitrichs do not receive priority processing. The application will be processed after all applicants with priorities have been processed. Although the family believes the house is too small, it is not sufficiently overcrowded to be considered deficient, because there are no more than 2 people per bedroom.

ATTACHMENT 3-D

RURAL DEVELOPMENT
RURAL HOUSING SERVICE

"Applicant Information Sheet" - Single Family Housing

The Rural Housing Service (RHS) provides loans in rural areas to eligible low- and very low-income applicants. The loan may be to purchase existing housing, purchase and repair existing housing, purchase a building site and construct a dwelling, or purchase new housing. Rural areas typically include open country and places with a population of 10,000 or less and, under certain conditions, towns and cities between 10,000 and 35,000 population.

For detailed information on income limits and eligible areas, visit: http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do

The property must be in good repair or placed in good repair with loan funds. For an existing property, a whole house inspection performed by a qualified inspector is needed. The buyer and seller should discuss who will cover the cost of the whole house inspection and address this item in the purchase agreement.

All who apply get equal consideration without regard to race, color, national origin, religion, sex, gender identity, sexual orientation, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity.

To apply, complete all the applicable items in the attached checklist of items to accompany the uniform residential loan application and submit the package using one of the options below:

- Through your loan application packager.
- Apply online after registering to obtain a USDA eAuthentication identification and password. http://forms.sc.egov.usda.gov/eForms/welcomeAction.do?Home
- Return to the Rural Development office using the address(es) below. If an email address is listed below, password protect the email to protect personal identifiable information.

Please contact your loan application packager (if present) or the above Rural Development office if you have questions regarding what needs to be in your application package or if would like assistance in completing a form. To determine if you qualify, review these frequently asked questions:

"CAN I ASSESS MY ELIGIBILITY PRIOR TO APPLYING?"

Using the Single Family Housing Direct Eligibility Assessment tool, potential applicants may enter information online to determine if the Section 502 Direct Loan Program is a good fit for them prior to applying. The tool will provide a preliminary eligibility determination after a potential applicant enters information on their general household composition, monthly income, monthly debts, property location, estimated property taxes, and estimated hazard insurance.

To access the tool, visit http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do and click on the Single Family Housing Direct tab.

Potential applicants are welcome to submit a complete application for an official determination by Rural Development regardless of the eligibility assessment results. Upon receipt of a complete application, Rural Development will determine the applicant's eligibility using verified information and the applicant's maximum loan amount based on their repayment ability and the area loan limit for the county in which the property is located.

"DOES IT MATTER HOW MANY OTHER BILLS I HAVE TO PAY?"

RHS will look at your monthly obligations and how much you currently owe to others. We'll want to know if paying back the proposed loan on top of your other payments will be difficult for you.

"WHAT IF I THINK MY INCOME IS TOO LOW?"

Having enough income to repay your loan is an important part of getting a loan; however, the RHS loan may be subsidized. A subsidized loan is based on the applicant repaying a percentage of their income toward the housing payment, taxes, and insurance. The percentage is generally 24 percent of the applicant's household income.

"WHAT CAN I DO IF MY INCOME IS TOO LOW?"

Consider applying with a co-applicant if there is another member of your household willing and able to be a note signer. RHS will then look at your combined income and credit when determining repayment ability. You may also consider a cosigner. A cosigner is an individual who will not reside in the dwelling, but who is willing to be responsible for the debt. You may also consider applying for down payment assistance programs in your area which provide affordable housing products. Many areas have Housing Finance Agencies, Housing Authorities, or Nonprofit Agencies which administer these programs. Funding from these sources can be combined with Rural Development loan funds.

"HOW CAN I DETERMINE IF MY INCOME IS ADEQUATE TO REPAY A LOAN?"

The amount of your proposed monthly house payment, real estate taxes, insurance, and other credit debts cannot exceed 41 percent of your gross monthly income. If you have questions regarding how this determination is made, you may contact the local Rural Development Office shown on the front cover.

"CAN I GET A LOAN IF I'M UNEMPLOYED?"

A steady source of income is very important to getting a loan. An applicant must show sufficient resources to repay the housing loan. Not having a job or a stable source of income may have an impact on the Agency's decision. Experience has shown that applicants with stable jobs and income sources are more likely to repay the loan.

"WILL YOU FIND OUT ABOUT OTHER CREDIT I'VE HAD?"

Yes. Your credit report provides information on your payment history including any difficulty you have had repaying other loans or credit cards. That information will be used to determine if you can repay the loan. If you are unsure what your credit history contains, you can obtain a free credit report by calling 1-877-322-8228 or logging into http://www.annualcreditreport.com. By law, individuals are entitled to receive one free credit file disclosure every 12 months from each of the nationwide consumer credit reporting companies – Equifax, Experian and TransUnion. This free report cannot replace the credit report that the Agency will obtain to determine eligibility.

"HOW LONG WILL IT BE BEFORE I CAN MOVE INTO MY NEW HOME?"

Typically, applicant eligibility, loan approval, and loan closing may be accomplished within approximately 120 days of filing a complete application. However, depending on the availability of Government funding, this time-frame may be extended. The applicant is periodically advised regarding the status of their application when there is lack of funding.

When there is lack of funding, applications will be processed based on the following priorities: 1) subsequent loans to correct health and safety hazards, 2) loans to purchase homes owned by RHS and loans to transfer and assume properties owned by RHS borrowers, 3) hardships as defined by RHS, 4) loans that bring in additional resources as defined by RHS, and 5) applications that do not qualify for priorities 1 - 4. Within each priority category, veteran's preference will be given to applicants who were discharged or released (except for a dishonorable discharge) from the U.S. active forces (regardless of the position held – administrative support, combat, mechanics, medical, transportation, etc.) and who actively served during eligible periods.

"HOW MUCH MONEY WILL I NEED FOR A DOWNPAYMENT?"

A down payment is generally not required. Loans may be made for up to 100 percent of the market (appraised) value. Simply put, this means if the sales price of the property is equal to or less than the appraised value, no down payment is needed.

"DOES THIS MEAN I WON'T NEED ANY CASH TO GET A LOAN?"

Generally, the applicant will need some cash available. There are costs associated with the credit report, appraisal report, escrow, and other related closing costs. The credit report fee is always paid by the applicant upfront. The first year's hazard insurance premium and whole house inspection report fee are paid prior to closing unless included in the loan amount. Costs pertaining to the appraisal, escrow, and loan closing may be included in the loan amount. You may also negotiate with the seller to contribute a percentage toward closing costs. Any agreement with the seller should be entered into prior to signing and documented in the purchase agreement or sales contract.

"DOES THE APPLICANT HAVE OTHER RESPONSIBILITIES?"

Yes. Rural Development staff are available to assist the applicant from the application to loan closing. The applicant is responsible for providing requested information timely. The information may be requested by Rural Development staff, a loan application packager, a real estate agent, or a closing agent. Failure to provide information timely results in delayed decisions and other actions.

"ARE THERE OTHER ELIGIBILITY REQUIREMENTS?"

Yes. The applicant must:

1. Be without decent, safe, and sanitary housing.
2. Be unable to obtain a loan from other resources on terms and conditions that they can reasonably be expected to meet.
3. Possess the legal capacity to incur the loan obligation.
4. Be a U.S. citizen, a U.S. noncitizen national, or a qualified alien and provide acceptable evidence of qualified alien status.

"WHAT ARE THE TERMS OF THE LOAN?"

The maximum repayment period is 33 years and, under certain conditions, 38 years. The maximum repayment period for manufactured homes is 30 years.

"WHERE MAY HOUSES BE LOCATED?"

Houses must be located in a rural area, on desirable sites with an adequate supply of safe drinking water and suitable arrangements for sewage disposal. Streets must have an all-weather surface and be maintained by a public body or a homeowner's association.

"WHAT ABOUT THE SIZE AND FEATURES OF THE HOME AND SITE?"

While cost and features vary in different areas of the country, the home and site must be modest. A modest home generally has between 400 and 2,000 square feet living area, above grade. A modest site generally cannot be subdivided under local zoning laws, does not include land or structures that will be used principally for income-producing purposes, complies with local zoning requirements, and does not have an in-ground swimming pool (unless the seller agrees to remove/fill it before closing). Under certain conditions, an exception to these standards may be granted on a case by case basis. The value of a dwelling may not exceed the area loan limit for the area in which the applicant is requesting financing.

WHO IS RESPONSIBLE FOR INSPECTING THE HOME?

The applicant/borrower is responsible for hiring a qualified inspector to conduct a whole house inspection on an existing property and for making inspections necessary to protect their interests. While a Rural Development staff member or designee may inspect a property during and/or following construction or repair, these inspections do not create or imply a warranty or guarantee on the condition of the property.

"WHERE MAY I APPLY?"

Applications are made at the local Rural Development office or through an application packager serving the area where the house will be located. To locate your nearest Rural Development office, please visit: https://offices.sc.egov.usda.gov/locator/app?state=us&agency=rd

ATTACHMENT 3-E

REQUEST TO REOPEN A REJECTED APPLICATION IN MORTGAGESERV

Application Number: _____

Name of Applicant:_____Name of Co-Applicant: _____

Reason for Request (check only one):

_____ National Appeals Division (NAD) overturned the rejection of the application.

_____ The Loan Approval Official reviewed and reconsidered the rejection and recommends reinstatement.

Please **PRINT** name of requesting official: _____

Signature of requesting official:_____Date: _____

Title of requesting official: _____

FOR STATE OFFICE USE ONLY:

*Request Approved:_____**Request Denied: _____

PRINT the Housing Program Director's name:

_____

Housing Program Director's signature:_____Date: _____

*If approved, the State Office should fax form to Field Assistance Desk (FAD) at 314-457-4441 and notify the Field Office of the approval.
**If denied, fax form back to originating office to place in applicant's case file.

ATTACHMENT 3-F

HOW TO ADDRESS NEGATIVE PRE-QUALIFICATION RESULTS

The purpose of this attachment is to instruct the RHS staff on how to handle discussions concerning negative pre-qualification results. Since pre-qualifications are based on unverified information and infile credit reports, the results are not binding. To avoid implying that the results are official, the following scripts are to be used in each given situation:

Situation 1: The potential applicant has credit blemishes (be it bankruptcy, collections, etc.) on their infile credit report.

Proper Response:

Let the potential applicant know that their credit record does not have to be perfect to be eligible for a loan. Inform the potential applicant that past credit blemishes can be acceptable if their overall credit record demonstrates an ability and willingness to repay obligations or if their credit blemishes occurred as a result of circumstances beyond their control. Counsel the potential applicant on how to correct the credit blemishes and share with the potential applicant the credit standards as outlined in HB-1-3550, Chapter 4. Be sure to explain to the potential applicant that fulfilling suggestions provided by the RHS staff will improve their chances of qualifying for a loan, but not guarantee loan approval.

Unacceptable Response:

Informing the potential applicant that based on the results of the infile credit report, they do not meet our credit standards and would not qualify for a Section 502 direct loan.

Situation 2: The potential applicant does not appear to qualify for an amount sufficient to purchase a decent, safe, and sanitary dwelling.

Proper Response

Counsel the potential applicant on ways to improve their financial status (i.e. paying off small debts, debt consolidation, increasing their income, etc.) and inform the potential applicant that a qualifying co-signer may be added to an application to compensate for a lack of adequate repayment ability. Also refer the potential applicant to state and nonprofit agencies that might be willing to extend forgivable loans and/or grants.

Unacceptable Response:

Telling the potential applicant that they do not qualify for a loan due to a lack of repayment ability.

Situation 3: The potential applicant presently owns a home.

Proper Response:

Let the potential applicant know that if their dwelling is structurally unsound, functionally inadequate, or too small to accommodate the needs of the household, RHS may be able to provide financing to improve the existing dwelling or to purchase a new one. In addition, let the potential applicant know that RHS may be able to refinance the property under certain circumstances (refer to HB-1-3550, Chapter 6.5).

Unacceptable Response:

Informing the potential applicant that the Section 502 direct loan program is designed for first-time homebuyers only.

Situation 4: The household's adjusted annual income appears to be over the income limit.

Proper Response:

Inform the potential applicant that to qualify for a Section 502 direct loan, their household's adjusted annual income must be within our established income limit based on household size and location. Also let the potential applicant know that if they should exceed the income limit for the direct loan program other options are available (assumed loan, purchase of a REO property, a Guaranteed Rural Housing loan, and other credit).

Unacceptable Response:

Informing the potential applicant that they do not qualify for a Section 502 direct loan because it appears as though they are over income based on the unverified income information.

ATTACHMENT 3-G

502 SINGLE FAMILY HOUSING CHECKLIST

"THIS CHECKLIST DOES NOT REPLACE THE RUNNING RECORD!"

This document should be filed under Folder A for an Electronic Customer File (ECF) or under Position 1 for a hardcopy file.

Applicant:_____ **Co-Applicant:** _____

Processing Priority: 1____2_____3_____4_____5_____

ECF / POS DATE APPLICATION PROCESSING

Review application for completeness within 3 business days of receipt. Promptly contact the applicant to request any missing information. Follow up with a letter advising applicant of a 15-day deadline for submission or the application will be withdrawn. Mark the file as inactive until complete. **(HB-1, 3.6)**

C	**3**	_____**RD 410-4, Uniform Residential Loan Application,** (or current industry standard "Uniform Residential Loan Application" along with pages 6-10 of RD 410-4) and **RD 3550-1, Authorization to Release Information** (for each adult household member) **(HB-1, 3.5)**
		_____**If an application includes the information required by TRID, forward to the applicant within 3 business days of receipt of the application (HB-1, 3.8):**
C	**2**	_____**Handbook Letter 5 (3550), Cover Letter to Truth in Lending Disclosure**
		_____**CFPB's "Your home loan toolkit: A step-by-step guide"**
C	**2**	_____**CFPB's Loan Estimate**
C	**2**	_____**Attachment 3-I, Settlement Service Providers List & Mortgage App. Related Disclosures**
C	**2**	_____**For an unsecured loan, send RD 1940-41, Truth in Lending Statement. Date returned _____**
C	**3**	_____**Check Treasury's DNP portal, print pages and file in applicant file** (if not completed at Pre-qual) **(HB-1, 3.3, 4.11)**
C	**3**	_____**Check MortgageServ's "SSN CROSS REFERENCE" softlink key** (if not completed at pre-qual) **(HB-1, 3.3, 4.11)**
D5	**3**	_____**If not a citizen, see Attachment 4-D (S.A.V.E.) (HB-1,4.20)**

D5 **3** _____**Identification (HB-1, 4.21)**
_____**Evidence of age** _____**Taxpayer's ID number** _____**Photo ID**
C **4** _____**Funds Available; send HB Letter 11 (3550), Request Information (HB-1, 3.14)**
C **4** _____**Funds Not Available; send HB Letter 2 (3550), Funds Not Available (HB-1,3.13)**
3 _____**Underwriting** – enter 'pre-qual' and 'application complete' dates on Stage Updating Screen - Be sure to enter actual purchase price, if known

ECF / POS DATE **APPLICATION PROCESSING(cont.)**

INCOME

D1 **3** _____**Paycheck stubs** (4 most recent & consecutive weeks) **(HB-1, 4.3)**
D1 **3** _____**Oral Verification of Employment – if applicable (HB-1, 3.15 A.3.)**
D1 **3** _____**RD 1910-5, Request for Verification of Employment –** if paystubs are not available **(HB-1, 4.3)**:
_____If no response in 14 days, call employer to follow up and document the discussion
D1 **3** _____**Other Income/Asset documentation (HB-1, 4.3, 4.5):**
_____Public Assistance _____Self-employment income
_____Child Support/Alimony _____Social Security/VA Benefits
_____Unemployment Benefits _____Pensions/Annuities
_____Last two Federal Income Taxes with W-2s and applicable schedules
_____Tax transcripts directly requested and obtained by applicant using IRS Form 4506-T, Request for Transcript of Tax Return, **if** additional income validation was needed.
_____**RD 3550-4, Employment and Asset Certification** _____Other
D3 _____Two most recent asset statements (bank accounts, retirement funds, etc.)

DEDUCTIONS

D2 **3** _____**Deduction documentation (HB-1, 4.4):**
_____Child Care _____Full-time Student status
_____Elderly/Disabled (**RD 1944-4, if applicable)**_____Minor Dependent
_____Medical Expenses _____Other
_____Educational Assistance Expenses
D2 **3** _____**Separation/Divorce/Paternity/Property Settlement Agreement,** if applicable

CREDIT

D4 **3** _____**Tri-Merge Credit Report (TMCR) documentation (HB-1, 4.12):**
_____Fee: Requested_____ Received_____
_____Credit Score Disclosure (Attachment 3-H)
_____Report: Received_____
_____Document in item 19 of RD 410-4

_____Credit score: Applicant_____ Co-applicant _____

D4 3_____Credit score is less than 640 or does not meet reliability standards (HB-1, 4.12 & 4.13):
_____Nontraditional credit verifications (HB-1,4.12.C)
_____RD 410-8, Applicant Reference Letter– if applicable
_____RD 1944-60, Landlord's Verification
_____RD 1944-61, Credit History Worksheet(1944-61)

ELIGIBILITY PROCESSING

D5 3_____Attachment 4-A, Worksheet for Computing Income (HB-1,4.2)
D5 3_____RD-3550-30, Verification of Debt Proposed for Refinancing, for non-Agency debt **(HB-1, 6.5)**

D5 3_____Document Applicant has adequate funds for closing cost/down payment- ifapplicable
D3 3_____RD 3550-2, Request for Verification of Gift/Gift Letter, if applicable - **(HB-1, 4.3 & 6.15)**
3_____Projected Payment Shock:_____(HB-1, 4.25)

D5 3_____Loan eligibility narrative completed/signed by Loan Approval Official (LAO)

D5 3_____RD 1944-59, Certificate of Eligibility (COE) if a property has not been selected. Valid for 45 days without leveraging or 60 days with leveraging. Two 30-day extensions may be granted **(HB-1, 4.25**)

C Check the applicant against the DNP portal when issuing the first COE extension
_____ Check the applicant against the DNP portal when issuing the second COE extension
_____ Withdraw the application if no property is identified after the second COE extension

C 3_____Verify completion of a Homeownership Education Course (Cert ofCompletion) **(HB-1, 3.4)**
F 3_____If applicant is not eligible, send HB Letter 15 (3550), Standardized Adverse Decision Letter with review and appeal rights **(HB-1,1.9)**
C 3_____Document eligibility on originally submitted RD 410-4, item 17.
D5 3_____ Update UniFi/Stage Updating, print and sign Eligibility Summary

ECF / POS DATE ELIGIBILITY PROCESSING(cont.)

F 2 _____Form RD 3550-23, Applicant Orientation Guide (HB-1,4.26).

F 2 _____If changed circumstances occur, issue revised Loan Estimate within 3 business days of receiving new information, but no later than 4 business days prior to loan consummation.
D5 4 _____HB Letter 1 (3550) Moderate IncomeOptions
D5 4 _____HB Letter 3 (3550) WaitingPeriod
D5 4 _____HB Letter 4 (3550) Funds Not Available – Certificate of Eligibility and/or Property Identified
D5 4 _____HB Letter 16 (3550) Eligibility of Self Help Applicants

ECF / POS		DATE	PROPERTY ELIGIBILITY
	5	_____	**Within 3 business days of receipt of a ratified sales contract identifying a specific property to be financed, the Loan Originator must send the required documents as established under the Application Processing section of this checklist. (HB-1,3.7)**
E	5	_____	**Sales Contract or Form RD 3550-34, Option to Purchase Real Property, (HB-1, 5.1)** Review all pages of and attachments to Purchase Agreement: **Legal Description** _____
E	4	_____	**HB Letter 10 (3550) Status of Offer to Buy Single Family Housing REO Property**
	3	_____	**Discuss closing date** - with seller, buyer, and real estate agent if it appears RD is unable to close loan by Purchase Agreement possession date
E	6	_____	**Verify eligibility of subject property (identified for purchase) (HB-1, 5.1)** **http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do** **Date Verification Completed:** _____ **Maximum loan limit for**_____**county, $** _____
E	5	_____	**Attachment 9-C, Condominium Questionnaire,** as applicable
E	6	_____	**Verify the subject property's address using the USDA address verification site and print for file. Result code must be 1 or 2; or researched, verified, and documented if not. Enter verified address in UniFi. (HB-1, 5.1)** **(http://eligibility.sc.egov.usda.gov/eligibility/addressVerification)**
E	2	_____	**Recalculate Eligibility Summary with actual loan amounts, if different from original, print for file.**
E	8	_____	**Appraisal** or document Statement of Value if appraisal is not required **(HB-1,5.16)**
E	8	_____	**RD 1922-15, Administrative Appraisal Review for Single Family Housing** - within 7 days of appraisal **(HB-1, 5.21); Reviewed and Accepted**_____(initial and date)
E	4	_____	**Notify Applicant of appraisal results and provide a copy of the appraisal.** If making an adverse decision on the appraisal, send either **HB Letter 17 or HB Letter 18, as applicable, along with a copy of the appraisal.**
E	6	_____	**Lead Based Paint (LBP) Compliance Key and Print Out (houses built prior to 1978) http://leadpaint.sc.egov.usda.gov/LBPWeb/index.html**
E	3	_____	**RD Instruction 1970-B, Exhibit D "Categorical Exclusion"** (must be completed prior to obligation of funds or Issuance of a Conditional Commitment, as applicable) **or RD Instruction 1970-C, Exhibit E "Guide for Reviewing Environmental Assessments"** as applicable **(RD Instruction 1970 series "Environmental" & HB-1, 5.8)**
E	6	_____	**FEMA's Standard Flood Hazard Determination** (www.floodcert.com) **(HB-1, 5.7 and 5.8)**
E	3	_____	**RD 3550-6, Notice of Special Flood Hazards, Flood Insurance Purchase Requirements (HB-1, 5.8)** and **Availability of Federal Disaster Relief Assistance**, as applicable (HB-1, 5.8 D and 7.12 B)
E	3	_____	**FEMA Elevation Certificate** or other forms of documentation (HB-1, 5.8 and 1970-F)
E	3	_____	**Dwelling served by public utilities or meets on-site water and waste systems** (HB-1, 5.7 D and 5.8 B)
E	3	_____	**Eight step decision making process** has been completed (HB-1 5.7 and 1970-F)
E	6	_____	**Whole House Inspection for an existing property which certifies the following items (7CFR 3550.57 & HB-1, 5.7)** _____Septic _____Well _____Heating/Cooling _____Plumbing_____Electrical _____Other – Structural Soundness _____Termite/Other Wood Destroying Pests
E	5	_____	**Survey** (if applicable) **(HB-1, 5.7)**

ECF / POS	DATE		NEW CONSTRUCTION
E1	**6**	_____	**RD 1924-2, Description of Materials** (must be approved by RD, Buyer & Builder)
E1	**6**	_____	**RD 1924-25, Plan Certification (HB-1, Appendix. 7, State Supplement)**
E1	**6**	_____	**House Plans/Drawings and Plot Plans** (must be approved by RD, Buyer & Builder)
	6	_____	**Manufactured Home built to HUD code** - verify dealer/contractor has been approved
E1	**6**	_____	**Proof of construction quality for a new dwelling (new construction or dwelling less than one year old that has never been occupied) to determine permitted loan-to-value (HB-1, 6.7 B.)**
E1	**3**	_____	**RD 1944-36, Application for Conditional Commitment** with fee. Refund fee if Conditional Commitment cannot be issued, order appraisal (now fee cannot be refunded), return fee to Contractor at closing. **(HB-1, 9.2)**

ECF / POS		DATE	UNDERWRITING/LOAN APPROVAL
D1	**3**	_____	**Reverify income** - if expected to be over 120 days old by closing date **(HB-1, 4.3)**
F	**3**	_____	**Update Eligibility Summary with correct information, print, sign and date** – must be in file at rejection/approval **(HB-1, 6.17)**
D5	**3**	_____	**Loan eligibility narrative updated to include underwriting details/signed by LAO**
	2	_____	**Verify UniFi Program Type Code** (must match income type)
F	**2**	_____	**Validate the interest rate and obligate through MortgageServ (HB-1,8.6 E, 8.7)**
F	**2**	_____	**Update MortgageServ screens before uploading file; check Display History Screen for correct loan amount.**

ECF / POS		DATE	UNDERWRITING/LOAN APPROVAL(CONTINUED)
F	**4**	_____	**If denying property, send HB Letter 15, Standardized Adverse Decision Letter** with review and appeal rights **(HB-1, 1.9 & 8.2) and reissue Certificate of Eligibility for applicant to select another property.**
	3	_____	**If other funding is involved, review lender terms and fees to determine if acceptable (HB-1, 10.9)**
F	**2**	_____	**RD 3550-7, Funding Commitment and Notification of Loan Closing**- issued day of approval/obligation in MortgageServ (if not signed and returned in 15 days, must de-obligate) **(HB-1, 8.2) along with a copy of the appraisal, unless obligated subject to an appraisal.**
F	**2**	_____	**RD 1940-41, Truth in Lending Statement** – if applicable for an unsecured loan **(HB-1, 3.8B)**

- Loan must be approved/rejected within 30 days after completed docket (HB-1,8.2)
- Make sure loan does not exceed applicable area loan limits (HB-1, 6.6)
- Verify loan-to-value ratio for existing dwellings does not exceed 100% (HB-1, 6.7)
- Loan terms cannot exceed maximum allowed (HB-1, 6.8) or approval authorities(1901-A)
- Attachment 6-A, Documentation Required Prior to Approving Loan. Chapter 6 of HB-1 gives additional guidelines.

ECF / POS DATE **CLOSING**

Closing Date:_____**Consummation Date:**_____

IMPORTANT NOTE: Loan consummation may not occur until 3 business days after the Closing Disclosure is received by the applicant. With the mailbox rule, this means there is generally a 7 business day waiting period before closing if the Closing Disclosure was not provided in person.

	3	_____**Re-verify Employment, Income and Eligibility (HB-1,8.6.C)**
D1		Date of oldest paystub:_____(must not be more than 120 days by the closing date)
D1		Date of Oral VOE:_____(if applicable complete 10 days before closing)
D4		Date of TMCR:_____(if more than nine months old at time of approval or closing, Loan Originator must obtain an updated TMCR at no cost to the applicant)
G	3	_____**Update UniFi with correct information and print the Eligibility Summary, sign and date-**must be in file at loan closing **(HB-1, 8.6.D)**
D5	3	_____**Loan eligibility narrative updated to include final closing details/signed by LAO**
G	5	_____**RD 1927-4, Transmittal of Title Information (HB-1, 8.4)**
G	5	_____**RD 1927-9, Preliminary Title Opinion** (if using attorney) **(HB-1,8.4)**
	5	_____**Review Title Insurance Binder/Preliminary Title Opinion and verify legal description is correct - (if exceptions noted affect the security value, loan cannot be closed).**
G	5	_____**Closing Disclosure provided to applicant (after it was reviewed for compliance with tolerance limits) (HB-1, 8.5)**_____Provided in person_____Provided by mail
G	5	_____**RD 3550-25, Loan Closing Instructions and Loan Closing Statement (HB-1,8.11 & 1927-B)**
	5	_____**Re-verify closing agent's account numbers**
G	5	_____**RHCDS/MISC/CLOSING SELECT/ADD AGENT screen**
G	7	_____**Hazard/Flood Insurance Binder & Receipt for 1st year premium (HB-1, Att 7-C)**
G	7	_____**RD 3550-15, Tax Information (HB-1, 7.10), Calculate RE taxes that should be paid at closing** (60 days of due date); **instruct Title Agent to collect prorated taxes from Seller** (refer to Purchase Agreement) **(HB-1,7.4)**
G	5	_____**RD 3550-9, Initial Escrow Account Disclosure Statement (HB-1, 7.5)**
G	2	_____**RD 3550-17, Funds Transmittal Report** for tax service & appraisal fees, escrow funds, etc. (copy in Collections Operational File) **(1951-B, if applicable)**

ECF / POS DATE CLOSING (CONTINUED)

G	5	_____**RD 3550-19, Transmittal-Closing Documents & Attachments** – as applicable **(HB-1, 8.11)**
G	3	_____**RD 410-4, Uniform Residential Loan Application PRINTEDFROM UniFi**
G	3	_____**Check the contractor using Treasury's DNP portal** –print hard copies for file **(1940-M)**
G	5	_____**RD 1927-5, Affidavit Regarding Work of Improvement** (if required by State Supplement) send blank to closing **(1927-B,1927.58)**
G	2	_____**RD 1940-16, Promissory Note** (original in safe) **(HB-1, 8.9 and FMI)**
G	2	_____**RD 1940-43, Notice of Right to Cancel -** if secured and non-purchase **(HB-1, 8.6)**
G	2	_____**RD 1944-14, Payment Assistance/Deferred Mortgage Assistance Agreement or RD 1944-6, Interest Credit Agreement** (as applicable)
G	5	_____**RD 1955-49, Quitclaim Deed or Warranty Deed** (as applicable)
G	5	_____**RD 3550-10, Condominium Rider** (ifapplicable)
G	5	_____**RD 3550-11, Planned Unit Development Rider** (if applicable)

G	**2**	_____	**RD 3550-12, Subsidy Repayment Agreement** (original in safe attached to note) **(HB- 1, Att. 8-A)**
G	**5**	_____	**RD 3550-14, Real Estate Mortgage or Deed of Trust for (State)** - send blank
G	**5**	_____	**RD 1927-8, Agreement with Prior Lienholder** - if leveraged loan **(HB-1, 8.6)**
G	**2**	_____	**RD 3550-22, Assumption Agreement Single Family Housing** - if applicable (original attached to original note in safe) **(HB-1, 8.6)**
G	**2**	_____	**RD 3550-16, Release from Personal Liability** - if applicable **(HB-1, 8.6)**
G	**5**	_____	**RD 3550-29, Document Errors and Omissions Agreement (HB-1. Attachment. 8-A)**
G	**5**	_____	**Obtain copies of all other funding sources including: promissory notes, grant agreements and/or security instruments (HB-1, 10.10)**
G	**5**	_____	**First payment coupon**

ECF / POS	**DATE**	**POST CLOSING**
5	_____	**Verify closing documents faxed/uploaded (ECF)/imaged/emailed to NFAOC in required time frame (HB-1, 8.11)** _____Verify proper lien position. _____Post 1-month follow-up for recorded Real Estate Mortgage. _____Post follow-up for Title Insurance Policy **(60 days)** or Final Title Opinion **(14 days**). (If not received, contact closing agent by mail with a copy of the letter to the insurance company.)
H **2**	_____	**Activate loan/payment assistance in MortgageServ <u>WITHIN 1 DAY OF CLOSING</u>.**
5	_____	**Review final Loan estimate & Closing Disclosure for tolerance violations. Cure violation within 60 days of closing.**
H **6**	_____	**Send Compensation for Construction Defects letter,** if new construction **(Guide Letter 1924-1)**
G **5**	_____	**RD 3550-25 – Loan Approval Official approves after all forms are returned, reviewed, and correct (HB-1, 8.11)**
H **2**	_____	**Delinquent/Lienholder Screen – complete MortgageServ screen for each leveraged partner**

ECF / POS		DATE	CONSTRUCTION CONTRACT
E2	6	_____	**RD 1924-6, Construction Contract** (Send Exhibit C, RD Instruction 1901-E within 10 days) **(HB-1, 5.25)** **DOL web site (http://www.dol.gov/ofccp/regs/compliance/preaward/cnstnote.htm)**
E2	6	_____	**RD 1924-16, Record of Pre-Construction Conference, Attachment 12-F**or other documentation **(HB-1, 5.25)**
E2	6	_____	**"400 Series" (400-1, 400-3, 400-6, posters and Exhibit C of 1901-E,),** as applicable **(HB-1, 5.25)**
E2	5	_____	**AD 1048, Certification Regarding Debarment …** - lower tier (signed by contractor >$25,000)
E2	7	_____	**Builder's Risk Insurance policy**
E2	6	_____	**RD 1924-1, Development Plan**
E2	2	_____	**RD 402-1, Deposit Agreement & RD 402-2, Statement of Deposits and Withdrawals**
E2	6	_____	**RD 1924-7, Contract Change Order** and updated **RD 1924-25, Plan Certification,** if applicable
E2	6	_____	**RD 1924-12, Inspection Report -** Minimum of; **(footer)_____(rough-in) _____ (final) ____**
E2	6	_____	**RD 1924-9, Certificate of Contractor's Release & RD 1924-10, Release by Claimants,** if applicable
E2	6	_____	**RD 1924-19, Builder's Warranty** or 10-year warranty per RD Instruction 1924-A, Exhibit L (NOTE: If 10-year warranty, must have policy or binder before final payment to builder)

ECF / POS		DATE	POST CONSTRUCTION COMPLETION
	6	_____	**Verify correct address of subject property is listed in MortgageServ for new construction – address must receive a code 1 or 2 to be valid or must research and document discrepancy (HB-1, 5.1) (http://eligibility.sc.egov.usda.gov/eligibility/addressVerification)**
	2	_____	**Post Conversion of new loan closing in MortgageServ** (print screen) **and Warranty Follow-ups**
	2	_____	**Collect Escrow Funds**
G	2	_____	**Modify Promissory Note and have borrower(s) initial changes**
		_____	**Submit copies to NFAOC**

ATTACHMENT 3-H

CREDIT SCORE DISCLOSURE

In accordance with the Fair and Accurate Credit Transactions Act of 2003 (FACT Act) and in connection with your application for a Rural Development Single Family Housing (hereafter referred to as "the Agency") home loan, the Agency, upon request, must disclose to you the score that a credit bureau distributes to users and will be used by the Agency in connection with your home loan as well as the key factors affecting your credit scores.

While the Agency does not consider credit scores in determining adverse credit decisions, we may use them to presume acceptable credit in lieu of other credit underwriting practices. Credit scores assist lenders in evaluating your credit history in a more expedient and objective manner. Your credit scores are found on your tri-merge credit report, a copy of which will be provided to you upon request. The range of possible scores is from 300 to 850. The Agency may also obtain and consider other credit scores in making its decision on your application.

In addition to the credit scores, your credit report lists the key factors related to why your scores were less than the maximum possible score. Please keep in mind that the factors are only indicators of why you received less than the maximum score possible. The listing of these factors does not by itself indicate that you would not be approved for the loan you have requested. Rural Development considers many factors in addition to your credit scores in making a decision on your application. If your application is not approved, you will receive a separate notice stating the specific reason(s) for that action which may or may not relate to your credit scores.

The Agency did not calculate your credit scores or develop the scoring models. If you have any questions about your credit scores or the information in the tri-merge credit report from which the scores were computed, you can contact the credit bureau at the address listed below.

Equifax Mortgage Solutions
4300 Westown Parkway, Suite 200
West Des Moines, IA 50266
(800) 333-0037

NOTICE TO HOME LOAN APPLICANT

Pursuant to FACT Act, Section 212.

In connection with your application for a home loan, Rural Development must disclose to you the score that a credit bureau distributed to the Agency and was used in connection with your home loan, as well as key factors affecting your tri-merge credit score.

The credit score is a computer-generated summary calculated at the time of the request and based on the information a credit bureau has on file. The scores are based on data about your credit history and payment patterns. Credit scores are important because they are used to assist the Agency in determining whether you will obtain a loan. Credit scores can change over time, depending on your conduct, how your credit history and payment patterns change, and how credit scoring technologies change.

Because the score is based on information in your tri-merge credit history, it is very important that you review the credit-related information to make sure it is accurate. Credit records may vary from one company to another.

If you have any questions, about your score or the credit information that is furnished to you, contact the credit bureau at the address and telephone number provided with this notice. The credit bureaus play no part in the decision to take any action on the loan application and are unable to provide you with specific reasons for the decision on the loan application.

If you have any questions concerning the terms of the loan, contact Rural Development.

THIS DISCLOSURE HAS BEEN PROVIDED TO THE APPLICANT(S) PURSUANT TO SECTION 212 OF THE FAIR AND ACCURATE CREDIT TRANSACTIONS ACT OF 2003. I UNDERSTAND THAT I MAY RECEIVE A COPY OF MY TRI-MERGE CREDIT REPORT BY MAKING A WRITTEN REQUEST TO THE RURAL DEVELOPMENT OFFICE HANDLING MY LOAN APPLICATION.

ATTACHMENT 3-I

SETTLEMENT SERVICE PROVIDERS AND MORTGAGE LOAN APPLICATION RELATEDDISCLOSURES

Applicant(s) Name: _____

Subject Property Address: _____

Account Number: _____ Date: _____

List of Settlement Service Providers

The "Integrated Mortgage Disclosures Under the Real Estate Settlement Procedures Act and the Truth In Lending Act" (TRID) rule requires that if a lender permits an applicant to shop for third party settlement services, the lender must provide to the applicant with a written list of settlement services providers at the time the Loan Estimate is issued. Settlement service provider (also referred to as "service provider") means any individual or business providing services in connection with a prospective or actual settlement of a mortgage loan. The lender's list of settlement service providers is only required for settlement services listed on the Loan Estimate, page 2, Subheading C - "Services You Can Shop For", and may include, but are not limited to, the following fees:

- Pest inspection fee
- Home inspection fee
- Survey fee
- Title services

In accordance with the TRID regulation, Rural Development (also referred to as "the Agency") hereby provides you with a list of settlement service providers that have recently provided services to Agency's customers. This list should assist you in identifying settlement service providers for services covered under the "Services You Can Shop For" section of the Loan Estimate. Rural Development does not require that you select the settlement service providers from this list; furthermore, you may choose a qualified provider that is not listed on this document. Please note that the settlement service providers on this list are not endorsed by or affiliated with Rural Development, and selecting a settlement service provider from this list does not affect the final credit decision on your loan application. Settlement services may take days or weeks to complete, therefore we strongly recommend that you select your settlement services providers as soon as possible or your settlement may be delayed. Once you have selected your service providers, you must contact your local Rural Development office to inform them about your selections.

If you select a service provider that is not on the Agency's list, you must provide our staff with the service provider's name, address and phone number. Settlement service providers and Rural Development staff work closely together to ensure that loan requirements are met in a timely manner before the closing date.

New Construction Homes / Construction Loans Disclosure

If you are buying a new construction home and settlement of your loan is expected to occur more than 60 calendar days from the time the initial Loan Estimate is issued, the Agency has the right to issue a revised Loan Estimate at any time up until 60 calendar days prior to loan closing/consummation.

Notification of Right To Receive a Copy of the Appraisal

In accordance with the Equal Credit Opportunity Act (ECOA) of 1974 (Regulation B) and in connection with your loan application, Rural Development must inform you of your right to receive a copy of the appraisal of the property you wish to purchase. Unless otherwise noted in the program's regulation, Rural Development will order an appraisal to determine the value of the property you are interested in purchasing and charge you a fee for the appraisal. The Agency will promptly give you a copy of the appraisal received regardless of the Agency's loan decision. You should expect to receive a copy of the appraisal after your loan has been evaluated by the Loan Approval Official but no later than three business days before loan closing.

If you have any questions concerning the terms of the loan, contact Rural Development.

THIS DISCLOSURE HAS BEEN PROVIDED TO THE APPLICANT(S) ALONG WITH THE LOAN ESTIMATE AND PURSUANT TO THE INTEGRATED MORTGAGE DISCLOSURES UNDER THE REAL ESTATE SETTLEMENT PROCEDURES ACT AND THE TRUTH IN LENDING ACT RULE. THE AGENCY MAY ISSUE A LOAN ESTIMATE IF APPLICABLE CHANGED CIRCUMSTANCES OCCUR. THIS IS NOT A LOAN / FUNDING COMMITMENT.

ATTACHMENT 3-J

CHECKLIST OF ITEMS TO ACCOMPANY THE UNIFORM RESIDENTIAL LOAN APPLICATION

You, as the applicant, need to simultaneously submit the applicable items below when applying for a loan. Copies of the verification documents should be submitted. If any item, information, and/or signature is missing, you will be contacted and asked to provide the missing pieces. **If the missing pieces are not provided within 15 days of the request, your incomplete application will be withdrawn from consideration**. To avoid any delay or withdrawal, verify that your loan application is fully complete prior to submission.

- ☐ This checklist with the applicable and included items checked.
- ☐ Form RD 410-4, Uniform Residential Loan Application: You **must** complete all sections (be sure to provide all applicable information, details, and data) and sign/date pages 5 and 8. https://forms.sc.egov.usda.gov//efcommon/eFileServices/eForms/RD410-4.PDF
- ☐ Verification of identity: You **must** provide a copy of your Government-issued picture identification (ID) along with evidence of age. Standard verifications are a driver's license or a passport. Contact us if you do not have these standard verifications to discuss possible alternatives.
- ☐ Verification of taxpayer ID number: You **must** provide verification of your full taxpayer ID number (i.e. no numbers are hidden or suppressed) using evidence such as your pay stubs or tax returns. A copy of your social security card is only needed if you do not have any other evidence of your full taxpayer ID number.
- ☐ $25 credit report fee (non-refundable): You **must** provide a check or money order that is signed, dated, and made payable to USDA Rural Development. If the applicant and co-applicant currently reside at separate addresses, the fee is $25 each. Remove any credit freeze at the time of application submission and keep it lifted until such time as the Agency pulls a credit report.

> **Notice to Customers Making Payment by Check:** If applicants send the Agency a check, it will be converted into an Electronic Funds Transfer (EFT). This means the Agency will copy the check and use the account information on it to electronically debit the applicant's account for the amount of the check. The debit from the applicant's account will usually occur within 24 hours and will be shown on the applicant's regular account statement. Applicants will not receive their original check back. The Agency will destroy the original check but will keep an image of it. If the EFT cannot be processed for technical reasons, applicants authorize the Agency to process a paper copy of the image in place of the original check. If the EFT cannot be completed because of insufficient funds, the Agency may try to make the transfer up to two additional times and the Agency will charge a one-time fee of $15, which will also be collected by EFT.

- ☐ If you have late payments, collections, judgments, or other derogatory items in your credit history, provide a written explanation for each credit blemish. If you are unsure what your credit history looks like, obtain a free credit report by calling 1-877-322-8228 or logging into http://www.annualcreditreport.com. By law, you are entitled to receive one free credit file disclosure every 12 months from each of the nationwide consumer credit reporting companies – Equifax, Experian and TransUnion. This free report cannot replace the credit report that the Agency will obtain to determine eligibility.

- ☐ Form RD 3550-1, Authorization to Release Information: Each adult member of the household **must** sign/date a separate release form. http://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD3550-1.PDF

- ☐ Form RD 3550-4, Employment and Asset Certification: You **must** check the appropriate blocks, account for the household members' employment and nonretirement assets as instructed, and sign/date the certification. http://forms.sc.egov.usda.gov/efcommon/eFileServices/eForms/RD3550-4.PDF

- ☐ Your last two signed Federal Income Tax Returns with all applicable tax return schedules. Also provide:
  - ☐ All W-2s, 1099s, and other forms attached to the returns.
  - ☐ If filed electronically, include a copy of the signature page with the Self-Select PIN, confirmation that the return was accepted, or evidence that it was filed by an authorized E-File provider.
  - ☐ Last four consecutive weeks of pay stubs for **all employed adult household members**.
  - ☐ If you have an employment history of less than two years or employment gaps in excess of 30 days within the last two years, you should provide a letter of explanation.
  - ☐ Recent benefit statements for regular unearned income for **all household members** who receive:
    - ☐ Social Security/Supplemental Security Income
    - ☐ Public assistance
    - ☐ Retirement income
    - ☐ Other

- ☐ Last 12-month payment history of alimony and/or child support received by **all adult household members** as provided by the court appointed entity responsible for handling payments. If this is not available, provide a copy of the separation agreement or divorce decree. While you can choose to have this income excluded from your repayment income, it must be reported to determine if your household's adjusted income is within the program's income limit.

- ☐ Two most recent brokerage or bank statements for **all household members** (excluding tax advantaged plans for education, health/medical, and retirement). If you are obtaining this information online, provide the statements as opposed to providing the online transaction histories.

- ☐ For a household member who is a full-time student and 18 years of age or older, a copy of their school transcript.

- ☐ Written evidence of child care expenses for dependents 12 years of age or younger.

- ☐ If you are 62 years of age or older, are disabled, or have a disabled household member, provide evidence of unreimbursed annual medical expenses if you wish to be considered for a deduction to household income.

- ☐ List your personal email address(es) below if you authorize the Agency to contact you via email. The Agency password protects emails containing personal identifiable information.

_____ _____

_____ _____

- ☐ While you are strongly discouraged from identifying a property or entering into a purchase agreement until you receive a Certificate of Eligibility from Rural Development, enter the county you are interested in purchasing a home in below.

_____

- ☐ If you have already entered into a purchase agreement (which again is strongly discouraged), provide a copy of the agreement.

Applicants who are first-time homebuyers are strongly encouraged to complete a homeowner education training as early in the application process as possible since the training covers the following important topics: preparing for homeownership (readiness to go from rental to homeownership), budgeting (pre- and post-purchase), credit counseling, shopping for a home, obtaining a mortgage, loan closing, and life as a homeowner. There is generally an out-of-pocket fee for the training, which can be reimbursed should the loan request be approved and closed. Attached is a list of Agency-approved education providers. You will be expected to successfully complete this training prior to entering into a contract to purchase or construct a home for maximum benefit.

CHAPTER 4: BORROWER ELIGIBILITY

4.1 OVERVIEW

Ensuring that all applicants served are eligible and receive the correct amount of assistance is a significant responsibility of Loan Originators and Loan Approval Officials. A borrower must be income-eligible, demonstrate a credit history that indicates ability and willingness to repay a loan, and meet a variety of other program requirements. This chapter provides guidance for each of these areas.

- **Section 1: Evaluating Borrower Income** provides instructions for calculating and verifying annual, adjusted, and repayment income.
- **Section 2: Evaluating Borrower Assets** discusses Agency requirements for cash contributions to the purchase and methods for computing income from assets.
- **Section 3: Credit History** identifies indicators of acceptable and unacceptable credit and provides instructions for reviewing an applicant's credit history.
- **Section 4: Other Eligibility Requirements** addresses a variety of other requirements applicants must meet to be eligible for the program.
- **Section 5: Processing the Certificate of Eligibility** provides policies and procedures for processing Form FD 1944-59, Certificate of Eligibility.

SECTION 1: EVALUATING BORROWER INCOME

4.2 OVERVIEW [7 CFR 3550.53(a) and (g), 7 CFR 3550.54]

Loan Originators use income information to: (1) help determine whether an applicant is eligible for a loan; (2) calculate the applicant's ability to repay a loan; and (3) determine the amount of the loan and the amount of payment subsidy the household can obtain. When reviewing an applicant's repayment income, the Loan Originator must determine whether the income is stable and dependable. This will typically be accomplished by reviewing information provided in the application, paystubs, tax returns, and oral verifications. The Loan Originator will generally need to look at two years p0of history to determine the dependability of the income. In addition, the Loan Originator must determine that there is a reasonable expectation that the income will continue. This section provides guidance for verifying and calculating income for each of these purposes.

A. Key Concepts for Income Determinations

1. Income Definitions

Three income definitions are used. Whenever income determinations are made, it is essential that the Loan Originator use the correct income definition and consider income from the appropriate household members. To determine whether the applicant will be able to repay a loan, the Loan Originator must use **repayment income**. To determine whether an applicant is income-eligible to receive a program loan or payment subsidies, the Loan Originator must use **adjusted income**. Adjusted income is calculated in 2 steps. First, the **annual income** of all household members is calculated. Then, certain household deductions for which the family may qualify are subtracted from annual income to compute adjusted income.

- **Annual Income** is the amount of income that is used to determine an applicant's eligibility for assistance. Annual income is defined as all amounts, monetary or not that are not specifically excluded by regulations, that go to, or are received on behalf of, the applicant/borrower, co-applicant/co-borrower, or any other household member (even if the household member is temporarily absent).

- **Adjusted Income** is used to determine whether a household is income eligible for payment assistance. It is based on annual income and provides for deductions to account for varying household circumstances and expenses.

- **Repayment Income** is used to determine whether an applicant has the ability to make monthly loan payments. It is based only on the income attributable to parties to the note and includes some income sources excluded for the purpose of adjusted income. Repayment Income is used during servicing **only** to determine if a borrower is eligible for a Moratorium or Reamortization as described in Paragraph 5.5 of HB-2-3550.

2. Whose Income To Count

For repayment income, the Loan Originator must consider only the income of household members who will be parties to the note. For adjusted income, the income of all household members must be considered. For both types, live-in aides, foster children, and foster adults living in the household are not considered household members.

An individual permanently confined to a nursing home or hospital may not be the applicant or co-applicant but may continue as a family member at the family's discretion. The family has a choice with regard to how the permanently confined individual's income will be counted. **The family may elect <u>either</u> of the following**:

- **Include** the individual's **income and receive allowable deductions** related to the medical care of the permanently confined individual; or
- **Exclude** the individual's **income and not receive allowable deductions** based on the medical care of the permanently confined individual.

Exhibit 4-1 is a table which lists whose income is to be counted.

Exhibit 4-1

INCOME TO BE COUNTED

Members	**Employment Income**	**Other Income** (including income from assets)
Applicant, Co-Applicant/Borrower	Yes	Yes
Spouse	Yes	Yes
Other Adult	Yes	Yes
Permanently Confined Family Member	Optional*	Optional*
Dependents (children under 18)	No	Yes
Full-time Student over 18	See Note	Yes
Non-Members		
Foster Child	No	No
Foster Adult	No	No
Live-in Aide	No	No

NOTE: The income of a full-time student 18 years old or older who is not the Applicant, Co-Applicant/Borrower, or Spouse is excluded after it exceeds $480.

***Reminder**: The family chooses to include or exclude the permanently confined individual's income.

3. Income Limits

Some program rules differ according to the income of the applicant. Three different income limits are used for the Section 502 and 504 programs. The National Office provides the income limits and updates the limits whenever they are revised. The income limits can be found online at: https://www.rd.usda.gov/files/RD-DirectLimitMap.pdf.

Adjusted income should be compared to the income limit to determine the category in which each household falls. Income limits are as follows:

- The very low-income limit is an adjusted income limit developed in consultation with HUD;
- The low-income limit is an adjusted income limit developed in consultation with HUD; and
- The moderate-income limit is an adjusted income that does not exceed the moderate-income limit for the guaranteed single family housing loan program.

4. Applicant Certification and Verification Requirements

Each applicant must provide the income, expense, and household information needed to enable the Agency to make income determinations. Most of this information is provided on the application, but some additional follow-up with the applicant may be required, as described in Paragraph 3.8. The applicant should be requested to provide two years of history for a reasonable determination of income. The documentation required will vary with the source of income. In most cases, the Loan Originator will compare information provided on the application with the tax returns, W-2s, and other preferred verification sources to evaluate the two-year history of income. For example, the need to use Form RD 1910-5, Request for Verification of Employment, to document previous employment (Part III of the form) should be rare and should be limited to cases where the preferred verification sources are insufficient to document the applicant's employment history. In some instances, less than two years of history may be acceptable when the applicant provides, and the Loan Originator documents sound justification. For example, an applicant whose compensation changed from hourly to salary income with the same employer in a similar job/position may be considered to have dependable and stable income. While not typical, more than two years of history (i.e. obtaining an additional year's tax return) may be needed. For example, when an applicant's income varies significantly from year to year, the Loan Originator may need to review a longer work/self-employment history to establish an average income. This can typically be accomplished by obtaining an additional year's tax return with accompanying attachments.

In the limited situations when verification from a third party is requested, a copy of Form RD 3550-1, Authorization to Release Information, **must** accompany the request. Authorization from each adult household member on the Form RD 3550-1 permits the Loan Originator to ask for, and verification sources to release, the needed information. Application processing should not be delayed if a third party does not respond to a request for information. In these instances, the Loan Originator must seek to obtain the most relevant information which can be obtained from the applicant to verify the information. This may include, but is not limited to, evidence of deposits/withdrawals, copies of cancelled checks, etc.

The verification and certification formats that are provided in Appendix 2 are not official Agency forms. They are samples that may be adapted as needed for particular circumstances. In some instances the same format can be used whether a third party is providing the verification or the applicant is making a certification.

5. Stable and Dependable Income

The Agency has no minimum history requirement for employment in a particular position. The key concept is whether the applicant has a history of receiving stable income and a reasonable expectation that the income will continue. The Loan Originator must carefully assess the applicant's income to establish whether it can reasonably be expected to continue for the next two years (e.g. child support and contract income). The applicant must provide an explanation letter for employment gaps in excess of 30 days unless their income history is clearly seasonal in nature. The Loan Originator must review the employment gap explanation to make a determination on the applicant's ability to receive stable and dependable income. If the Loan Originator determines that an applicant's income source is unstable and undependable, the income must be excluded from repayment but included in annual income.

- **Wage and Salary Income.** Income from employment may include a base hourly wage or salary, overtime pay, commissions, fees, tips, bonuses, housing allowances, and other compensation for personal services of all adult members of the household. When the applicant demonstrates a two-year history of stable or rising income, current income from each of these sources may be used unless there is evidence to the contrary (such as the current employer's oral confirmation that such income is NOT likely to continue).

Example – Stable Income

Steven Green has been working for the last 6 months for LMN Contractors as a Construction Foreman. Before that, he worked for PDQ Building Supply for 8 months as a Shift Supervisor. There is a 6-week gap in his employment history that he explains as being the result of a lay-off after a large construction project (where he was employed for 15 months as a construction worker) was completed. Mr. Green's income is considered stable because the reasons for his job changes were related to changes in job opportunities. Even though his job changed several times, his line of work was similar.

Example – Dependable Income

Mary Brown receives SSI income for her dependent child who is 17 years of age. The SSI income should not be counted as repayment income because it clearly cannot be expected to continue. It would be counted as annual income since it is current verified income.

- **Self-employment Income.** Income based on a two-year history of self-employment, in the same line of work, is an acceptable indicator of stable and dependable income.

Example – Self-Employment, Commission and Other Irregular Income

Julie McAhren sells beauty products door-to-door on commission. She makes most of her money in the months prior to Christmas but has some income throughout the year. She has no formal records of her income other than a copy of the IRS Form 1040 she files each year. With no other information available, use the income reflected on Julie's copy of her Form 1040 as her annual income and make the income adjustments according to Attachment 4-C.

Betty House sells real estate on commission. She makes most of her money during the summer months. She has no formal records of her income other than a copy of a 1099 and the Tax Return (Form 1040) she files each year. The gross earning on the 1099 should not be used as her annual income. Use the income and other information on the tax return in conjunction with Attachment 4-C to calculate the self-employment income.

- **Other Sources of Income.** Income from public assistance, child support, alimony, or retirement that is consistently received is considered stable when such payments are based on a law, written agreement or court decree, the amount and regularity of the payments, the eligibility criteria for the payments, such as the age of the child (when applicable), and the availability of means to compel payments.

Examples – Other Sources of Income

Janis Phillips is not always well enough to work full-time. When she is well, she works as a typist with a temporary agency. Last year was a good year and she worked a total of nearly six months. This year, however, she has more medical problems and does not know when or how much she will be able to work. Because she is not working at the time, it will be best to exclude her employment income and remind her that she must report the date when she resumes work.

Sam Shah receives social security disability. He reports that he works as a handyman periodically. He cannot remember when or how often he worked last year; he says it was a couple of times. Sam's earnings appear to fit into the category of nonrecurring, sporadic income that is not included in annual income. Tell Sam his earnings are not being included in his annual income this year, but he must report any regular work or steady jobs he takes. Jane Smith receives child support payments for her sixteen and a half-year old son. She has a copy of the court appointed child support agreement, which states that the child support will end when son turns 18, and a computer print-out of a 12-month child support payment history. The child support income should be counted in the annual income but excluded from the repayment income calculation because it is not expected to continue for the next two years.

- **Irregular Income**. Irregular income from employment are earnings that may vary on a weekly, monthly, or seasonal basis depending on the type of income. This income is not guaranteed, nor received on a regular basis. Irregular income includes over-time, bonus, second job, part-time, and seasonal income. Irregular income may be considered stable when the applicant has worked in the same line of work (not necessarily the same employer) for at least two years. Loan Originators may accept less than a two-year history (but no less than 12-months) of irregular income if there is a strong likelihood that the applicant will continue to receive that income. Loan Originators must establish the income trend and calculate a monthly average for the irregular income. When the applicant receives seasonal unemployment compensation, it must be clearly associated with seasonal layoffs expected to recur and be reported on the applicant's federal income tax returns. Commission-based pay is also considered irregular income. Additional guidance on calculating commission income is provided in Attachment 4-C.

Example – Irregular Income

Ross Bosser is a roofer who works from April through September. He does not work in rain or windstorms. His employer orally confirmed the total number of regular and overtime hours Ross worked during the past two years. To calculate Ross's anticipated income, use the average number of regular hours over the past two years times his current regular pay rate, and the average overtime hours times his current overtime rate.

- **Less Than Two Years of History.** In some cases, a history of less than two years is acceptable. The determination requires a careful analysis by the Loan Originator. This may include an applicant who is either new to the work force, is on a probationary period, or has returned to the work force after an extended absence. The Loan Originator may consider reasonable allowances for less than a two-year history under the following circumstances:

  - The applicant has recently changed jobs but remains in the same line of work.
  - The applicant frequently changes jobs but demonstrates income continuity.
  - The applicant is a recent graduate, as evidenced by college transcripts, or a recent member of the military, as evidenced by discharge papers, entering the civilian workforce.
  - The applicant has recently re-entered the workforce after an absence due to an extended medical illness, to care for a family member or minor child, or other similar circumstances.

Example – Less Than Two Years History

For the last few years, Ellen Dixon has been a homemaker with no outside employment. Now that her children are old enough, she has taken a job as a teacher for which she has the necessary education and certifications. She is currently half way through her 6-month probation period and her employer orally confirmed that she is a permanent employee. Ms. Dixon's income can be considered stable and dependable

B. Using UniFi and the Income Worksheet to Compute Income

All 3 types of income are calculated in UniFi using data entered by the Loan Originator. **Attachment 4-A**, a Worksheet for Computing Income calculator that helps Loan Originators organize applicant information for data entry and provides instructions to calculate each type of income, **will be completed and placed in the applicant's file**.

4.3 SOURCES OF INCOME

Loan Originators will consider sources of income to determine annual and repayment income. This section provides guidance on income that will and/or will not be counted.

A. Income Considered for Annual and Repayment Income

For annual income, consider income from the following sources that are attributable to any household member. For repayment income, consider income from the following sources that are: attributable to parties to the note and represent a source of dependable income.

Paragraph 4.3 Sources Of Income

1. The gross amount, before any payroll deductions, of base wages and salaries, overtime pay, commissions, fees, tips, bonuses, housing allowances, and other compensation for personal services of all adult members of the household. If a cost of living allowance or a proposed increase in income has been estimated to take place on or before loan approval, loan closing, or the effective date of the payment assistance agreement, it will be included as income. For **annual income**, count only the first $480 of earned income from adult full-time students who are not the borrower, co-borrower, or spouse.

Employer paid and provided fringe benefits are not included in annual income regardless of whether the benefits are reported on the employee wage statement. Fringe benefits may include, but are not limited to:

- Child care/pet-sitting,
- Medical/life insurance,
- Car/mileage allowance,
- Stock options,
- Discounts for merchandise,
- Sport/concert/movie tickets or entertainment,
- Charity donations in employee name,
- Any reimbursement of actual work expenses.

Housing allowances may include, but are not limited to:

- **Cash or non-cash contributions paid on behalf of the applicant/borrower by persons not living in the house,**
- Allowances for members of the Armed Forces,
- Allowances for members of the Clergy,
- Allowances paid by employer.

2. The net income from the operation of a farm, business, or profession. The following provisions apply:

- Expenditures for business or farm expansion, capital improvements, or payments of principal on capital indebtedness shall not be used as deductions in determining income. A deduction is allowed in the manner prescribed by Internal Revenue Service (IRS) regulations only for interest paid in amortizing capital indebtedness.
- Farm and non-farm business losses are considered "0" in determining annual income. A negative amount must **not** be used to offset other family income.

- A deduction, based on straight line depreciation, is allowed in the manner prescribed by IRS regulations for the exhaustion, wear and tear, and obsolescence of depreciable property used in the operation of a farm, business, or profession by a member of the household. The deduction must be based on an itemized schedule showing the amount of straight-line depreciation.

- Any withdrawal of cash or assets from the operation of a farm, business, or profession, or salaries or other amounts distributed to family members from the farm, business, or profession, will be included in income, except to the extent the withdrawal is for reimbursement of cash or assets invested in the operation by a member of the household.

- A deduction is allowed for verified business expenses, such as lodging, meals, and fuel, for business trips made by salaried employees, such as long-distance truck drivers, who must meet these expenses without reimbursement.

- For home-based operations such as child care, product sales, and the production of crafts, housing related expenses for the property being financed such as mortgage interest, real estate taxes, and insurance, which may be claimed as business expense deductions for income tax purposes, will not be deducted from annual income.

3. Interest, dividends, and other net income of any kind from real or personal property, including:

- The share received by adult members of the household from income distributed from a trust fund.

- Any withdrawal of cash or assets from an investment except to the extent the withdrawal is reimbursement of cash or assets invested by a member of the household.

4. The full amount of periodic payments received from Social Security (including Social Security received by adults on behalf of minors or by minors intended for their own support, or by an applicant who is a representative payee for an adult household member who will reside in the property), annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts. However, deferred periodic amounts from supplemental income and social security benefits that are received in a lump sum amount or in prospective monthly amounts are not counted.

Example – Adjustment for Prior Overpayment of Benefits

Dan Steven's social security payment of $250 per month is being reduced by $25 per month for a period of six months to make up for a prior overpayment. Count Dan's social security income as $225 per month for the next six months and as $250 per month for the remaining six months.

5. Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay. Unemployment income requires a two year documentation of receipt and reasonable assurance of its continuance. This may be appropriate for individuals employed on a seasonal basis (e.g., farm laborers, construction workers, etc.).

6. Public assistance except as indicated in Paragraphs 4.3 C. and D.

7. Periodic allowances, such as:

- Alimony and child support received by the household; or
- Recurring monetary gifts or contributions from an organization or person who is not a member of the household.

Examples – Regular Cash Contributions

The father of a young single parent pays her monthly utility bills. On average, he provides $100 each month. The $100 per month must be included in the family's annual income.

The daughter of an elderly applicant gives her mother $175 each month to assist with her living expenses. The daughter plans to continue subsidizing her mother's expenses. The $175 per month must be included in the annual income.

8. All regular pay, special pay (except for persons exposed to hostile fire), and allowances of a member of the armed forces who is the applicant or spouse, whether or not that family member lives in the home.

B. Additional Income Considerations for Repayment Income

Consider these additional sources of income that are attributable to parties to the note and represent a source of dependable income for repayment income only.

1. Housing assistance payment (HAP). (HUD's Housing Choice Voucher–Homeownership Program sometimes referred to as Section 8 for Homeownership.) See Chapter 8.9 on how HAP payments should be handled. For additional information on the Housing Choice Voucher – Homeownership Program, visit http://portal.hud.gov/hudportal/HUD?src=/program_offices/public_indian_housing/programs/hcv/homeownership

2. Adoption assistance payments in excess of $480 per adopted child.

3. Reparation payments paid by a foreign government arising out of the Holocaust. If any applicant for an Agency loan was deemed ineligible because the applicant's income exceeded the low income limit because of the applicant's Nazi persecution benefits, the Agency Loan Approval Official should notify the applicant to reapply for a loan.

4. Certain income tax credits regularly received via the applicant's employer.

5. The full amount of student financial assistance received by household members or paid directly to the educational institution who are parties to the note. Financial assistance includes grants, educational entitlements, work study programs, and financial aid packages. It does not include tuition, fees, student loans, books, equipment, materials and transportation. Any amount provided for living expenses may be counted as **repayment income**.

6. Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling unit.

7. Any other revenue which a Federal statute exempts will be considered **repayment income.** This includes:

- The imminent danger duty pay to a service person applicant or spouse away from home and exposed to hostile fire.
- Payments to volunteers under the Domestic Volunteer Service Act of 1973, including, but not limited to:

◊ National Volunteer Antipoverty Programs which include Volunteers In Service To America (VISTA), Peace Corps, Service Learning Programs, and Special Volunteer Programs.

◊ National Older American Volunteer Programs for persons age 60 and over which include Retired Senior Volunteer Programs, Foster Grandparent Program, Older American Community Services Program, and National Volunteer Programs to Assist Small Business and Promote Volunteer Service to Persons with Business Experience, Service Corps of Retired Executives (SCORE), and Active Corps of Executives (ACE).

- Payments received after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the "In Re Agent Orange" product liability litigations, M.D.L. No. 381 (E.D.N.Y.).
- Payments received under the "Alaska Native Claims Settlement Act" or the "Maine Indian Claims Settlement Act."
- Income derived from certain sub-marginal land of the United States that is held in trust for certain American Indian tribes.
- Payments or allowances made under the Department of Health and Human Services Low-Income Home Energy Assistance Program.
- Payments received from the Job Training Partnership Act.
- Income derived from the disposition of funds of the Grand River Band of Ottawa Indians.
- The first $2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the Court of Claims, or from funds held in trust for an American Indian tribe by the Secretary of Interior.
- Payments received from programs funded under Title V of the Older Americans Act of 1965.
- Any other income which is exempted under Federal statute.

8. Amounts paid by a State Agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member in the home.

9. The special pay to a family member serving in the Armed Forces who is exposed to hostile fire.

10. Income received from the Supplemental Nutrition Assistance Program (SNAP) may be considered to calculate repayment income in an amount **not to exceed 20 percent of the total repayment income** ("not to exceed" amount). The following provisions apply:

- Only the SNAP benefits attributable to the note signers can be considered for repayment income.

- Only **the lesser** of the "not to exceed" amount or the actual SNAP benefits can be included in the applicant's repayment income.

Example – Income from SNAP Benefits

Eloise Thompson's monthly income from employment is $800. She also receives $200 per month in child support payments for her 6-year-old daughter and $200 per month in SNAP benefits. To consider the SNAP benefits in the repayment income calculation, the "not to exceed" amount must be calculated.

Monthly repayment income excluding SNAP benefits ($800 + $200):	$1,000
To calculate Income from SNAP benefits:	
1. Equalize the repayment income ($1,000 / .80):	$1,250
2. Calculate the "not to exceed" amount ($1,250 - $1,000):	$ 250
3. Compare to actual SNAP benefits received:	$ 200
The **lesser** of the "not to exceed" amount or the actual SNAP benefits:	$ 200
Monthly repayment income after SNAP consideration:	$1,200

C. Income Never Considered for Annual and Repayment Income

The following sources are never considered when calculating annual income or repayment income:

1. Income from the employment of persons under 18 years of age, except parties to the note and their spouses.

2. Special-Purpose Payments. These are payments made to the applicant's household that would be discontinued if not spent for a specific purpose. Payments which are intended to defray specific expenses of an unusual nature and which are expended solely for those expenses should not be considered as income. Examples include, but are not necessarily limited to, the following:

a. Medical Expenses. Funds provided by a charitable organization to defray medical expenses, to the extent to which they are actually spent to meet those expenses.

b. Foster Children/Adults. Payments for the care of foster children or adults. NOTE: Foster children are not considered members of the family. Therefore, no adjustments to income are to be made because of their presence.

3. Temporary, nonrecurring, or sporadic income (including gifts).

4. Lump-sum additions to family assets such as inheritances, capital gains, insurance payments included under health, accident, hazard, or worker's compensation policies, and settlements for personal or property losses.

5. Amounts that are granted specifically for, or in reimbursement of, the cost of medical expenses for any family member.

6. Payments received on reverse amortization mortgages (these payments are considered draw-down on the applicant’s assets).

7. Income received by foster children or foster adults who live in the household, or live-in aides, regardless of whether the live-in aide is paid by the family or a social services program (family members cannot be considered live-in aides unless they are being paid by a health agency and have an address, other than a post office box, elsewhere).

8. Amounts received by any family member participating in programs under the Workforce Investment Act of 1998 (29 U.S.C. 2931).

- Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set aside for use under a Plan to Attain Self-Sufficiency (PASS).

- Amounts received by a participant in other publicly assisted programs which are specifically for or in reimbursement of out-of-pocket expenses incurred (special equipment, clothing, transportation, child care, etc.) and which are made solely to allow participation in a specific program.

9. Earned income tax credits.

10. Incremental earnings and benefits resulting to any family members from participation in qualifying State or local employment training programs (including training programs not affiliated with a local government) and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are excluded only for the period during which the family participates in the employment training program.

11. Allowances, earnings and payments to AmeriCorps participants under the National and Community Service Act of 1990 (42 E.S.C. 12637{d}).

D. Additional Income Never Considered for Annual Income

In addition, the following sources are never considered when calculating annual income:

1. Payments received for the care of foster children, or foster adults (usually individuals with disabilities who are unable to live alone).

2. Deferred periodic payments of supplemental security income and Social Security benefits that are received in a lump sum amount or in prospective monthly amounts.

3. Any amount of crime victim compensation received through crime victim assistance (or payment or reimbursement of the cost of such assistance) because of the commission of a crime against the applicant under the Victims of Crime Act (42 U.S.C. 10602).

4. Any allowance paid under 38 U.S.C. 1805 to a child suffering from spina bifida who is the child of a Vietnam veteran.

5. Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation (Pub.L. 95-433).

6. Housing assistance payment (HAP) (HUD'S Housing Choice Voucher Homeownership Program, sometimes referred to as Section 8 for Homeownership). The HAP is not included in the household's annual income for the purpose of determining the income category in which the household falls or determining payment assistance.

7. Adoption assistance payments in excess of $480 per adopted child.

Examples – Income Exclusions

- **The Value of Food Provided through the Meals on Wheels Program or Other Programs Providing Food for the Needy**. Shane Michaels received a hot lunch each day during the week in the community room and an evening meal in his apartment. One meal is provided through the Meals on Wheels program. A local church provided the other. The value of the meals he receives is not counted as income.
- **Groceries provided by persons not living in the household**. Melissa Bostic's mother purchases and delivers groceries each week for Melissa and her two year old. The value of these groceries is not counted as income despite the fact that these are a regular contribution or gift.
- **Amounts Received Under WIC or the School Lunch Act**. Cody Britt's two children receive a free breakfast and reduced priced lunches at school every day through the Special Supplemental Food Program for Women, Infants and Children (WIC). The value of this food is not counted as income.
- **Deferred periodic payments of social security benefits**. Andrew Ray received $32,000 in deferred social security benefits following a lengthy eligibility dispute. This delayed payment of social security benefits is treated as an asset, not as income.
- **Income from training programs**. Jamey Hawkins is participating in a qualified state-supported employment training program every afternoon to learn improved computer skills. Each morning, she continues her regular job as a typist. The $250 a week she receives as a part-time typist is included in annual income. The $150 a week she receives for participation in the training program is excluded in annual income.
- **Student financial assistance**. Dylan Nessel won a scholarship from the local civic association. The association sends him a $1,000 check each semester to help with tuition costs. These funds are excluded from annual income.

E. Verifying Sources and Amounts

The Loan Originator must verify income information provided by the applicant. Paragraph 3.15 describes the different types of verifications. Federal Income Tax Returns with supporting documentation are the preferred verification source for prior income/previous employment. These documents along with paystubs (supported by oral verification) and/or award letters are preferred when reviewing current income sources and projecting both annual and repayment income. Written verifications provided by third-party sources or documents prepared by third-party sources are required when the applicant is unable to provide sufficient recent, reliable and consistent documentation.

Each applicant must sign Form RD 3550-1, Authorization to Release Information, at the time of application. Copies of this form must accompany any request for verification from third-party sources. Form SSA-3288, Consent for Release of Information, may also be used for Social Security verifications when the applicant is unable to provide a copy of an award letter. A complete copy of the last two filed and signed IRS Form 1040, U.S. Individual Income Tax Returns must be provided by the applicant. IRS Form W-2, Wage and Tax Statement, and/or IRS Form 1099-MISC, Miscellaneous Income, must be attached to the applicant's federal income tax return in order for it to be considered a complete return. For electronically filed tax returns, it is not necessary to require the applicant(s) to manually sign the return for application purposes if there is sufficient documentation the applicant has signed and filed the return electronically (e.g. use of Self-Select PIN for Free File Fillable Forms, Electronic Filing PIN, authorized E-File Provider, etc.).

The Agency will ask the applicant to directly request, obtain, and provide a copy of their tax return transcript for the previous two tax years (using IRS Form 4506-T, Request for Transcript of Tax Return) ***if additional income validation is needed***. If there are inconsistencies between the income verifications (e.g. pay stubs, tax returns, etc.), or if the applicant was unable to furnish complete copies of their last two filed returns (e.g. a W-2 was missing), then the transcript should be requested. The transcript should also be requested if the income verifications appear suspicious (e.g. there is evidence of alteration).

Appendix 2 provides sample certification and verification formats for a number of purposes.

The following chart provides guidance on acceptable alternative sources of verifications of different types of income:

INCOME	(If **Preferred Source** of Verification cannot be obtained without cost, **Acceptable Alternative** may be used.)
Type of Income or Verification Source	**Verification Requirements and Procedures**
WAGES or SALARY	
Paycheck Stubs or Payroll Earnings Statements for not less than four (4) consecutive weeks **Preferred Source**	The applicant must list all household members on the application and provide their employment status. They must be consecutive and "most recent" as of the date the loan application is made; must clearly identify the applicant (or adult household member) as the employee by name and/or social security number; must show the gross earnings for that pay period and year-to-date; and must be computer-generated or typed. Oral verifications should only be used if the applicant has worked for the employer for less than a year or the other types of verifications are inconsistent or suspicious, documented as follows:
AND Oral Verification as permitted in Paragraph 3.15 A.3. **Preferred Source**	Document in the running record the date of contact and list: The employer's name/address/phone number/contact person and title; the employee's name, date of employment, present position and probability of continued employment; the source of the phone number (applicant, realtor, yellow pages, website); and the name and title of the Rural Development employee that contacted the employer. Note: The oral verification is conducted with a current employer to confirm the applicant's present employment and to verify the probability of continued employment only. Income information should not be discussed during an oral verification of employment.
Electronic Verification **Acceptable Alternative (in lieu of paycheck stubs only)**	It must clearly identify the applicant (or adult household member) as the employee by name and/or social security number, cover the most recent pay period as of the date the initial loan application is made, and show the gross earnings for the most recent 30-day pay period and year-to-date. Obtain oral verification of employment only if the applicant has worked for the employer for less than a year or the other types of verifications are inconsistent or suspicious.
Written Verification of Employment **Acceptable Alternative**	If paycheck stubs or earnings statements are inconsistent or not available, the Loan Originator must send Form RD 1910-5, Request for Verification of Employment, to each employer for verification.

Type of Income or Verification Source	Verification Requirements and Procedures
For SELF-EMPLOYED PERSONS	
Income & Expense Statement **Preferred Source**	Self-employed applicants (or adult household members) must provide current documentation of income and expenses, which cannot be older than the previous fiscal year. The Loan Originator must compare the income and expense information provided by the applicant with the last two complete Federal Income Tax Returns (IRS Form 1040) along with Schedules C & F and/or other applicable schedules, and clarify any discrepancies. IRS Form W-2 must be attached to the applicant's Federal Income Tax return in order for it to be considered a complete return when the applicant has wage income. (**NOTE**: Other sources of commercial software such as Turbo Tax **are not acceptable alternatives**.) Appendix 2 provides a sample format for recording business expenses.
SUPPLEMENTAL VERIFICATION	
Seasonal Employment **Preferred Source**	A household member who is a seasonal worker must provide the most recent Federal income Tax return, the prior year's W-2s and/or prior year's 1099-MISC statements.
Unemployment and Unemployment Benefits, Disability & Worker's Compensation, Severance Pay (except lump-sum additions) **Preferred Source**	All applicants (or adult household members) must complete Form RD 3550-4, Employment and Asset Certification, which provides his/her current employment status and requires them to agree to inform the Agency immediately, in writing, if the employment status changes. If an applicant has recently become unemployed, the Loan Originator should contact the former employer to confirm that the applicant is no longer employed and that re-employment is not expected. Applicants (or adult household members) receiving unemployment benefits must provide the most recent award or benefit letter prepared and signed by the authorizing agency to verify the non-employment income. Appendix 2 provides a sample format for requesting information about unemployment benefits. It must clearly identify the adult household member as the employee by name and/or social security number and cover the most recent earnings as of the date the verification is submitted.

Electronic Verification **Acceptable Alternative**	Electronic verification for that period, copy of checks, or bank statements, all showing gross earnings. All authorized deductions must be added back to checks or bank statements to reflect gross amount.
Mortgage Credit Certificates (MCC) **Preferred Source for MCC** Applicable IRS Form or Letter from Employer	An applicant receiving a MCC must file IRS Form W-4, Employee's Withholding Allowance Certificate. This IRS form enables the applicant's employer to include a portion of the applicant's income tax credit in their regular paycheck. Income tax credits not advanced through the applicant's employer on at least a monthly basis **cannot** be included in repayment income but may warrant consideration as a compensating factor. The documents must be the "most recent" and identify the applicant by name and/or social security number. Signed copies of the applicable IRS Form or a letter from the employer stating the applicant has executed and the employer has accepted the document.
Regular, Unearned Income (e.g., Social Security, SSI, Retirement Funds, Pensions, Annuities, Disability or Death Benefits) (except deferred periodic payments) **Preferred Source** **Acceptable Alternative**	The applicant (or adult household member) must provide a copy of the most recent award or benefit letter prepared and signed by the authorizing agency. If the date of the letter is not within the last 12 months, require the applicant to submit information updating the award, for example, a cost-of-living (COLA) payment notice, Social Security Benefits Statement, or a notice of change in benefits. Appendix 2 provides sample formats for requesting this information. The two most recent bank statements showing the amount of monthly benefits received and IRS Form 1099 for the previous year. Loan Originators must verify that the benefit shown on the bank statement reflects the gross amount of the benefit prior to deductions for items such as taxes, health benefits, insurance premiums, etc.

Alimony or Child Support Payments **Preferred Source** Electronic Verification **Acceptable Alternative**	The applicant (or adult household member) **must** obtain a payment history for the last 12 months from the court appointed entity responsible for handling payments. The average amount received will be used in the income calculations. The two most recent bank statements showing electronic deposit of the monthly alimony and/or child support received **AND** a copy of the court appointed divorce decree or separation agreement (if the divorce is not final) that provides for the payment of alimony or child support and states the amount and the period of time over which it will be received.

Divorce Decree
Acceptable Alternative
 	
Cancelled Checks
Acceptable Alternative
	If (**and only if**) a source of income was awarded in the decree, and there is not a court appointed entity responsible for handling payments, the applicant (or adult household member) may provide a copy of the divorce decree, separation agreement, or other document indicating the amount of the required support payments. If the applicant reports that the amount required by the agreement is not being received, the applicant must provide adequate documentation of the amount being received (i.e. copies of the checks or money orders from the payer, etc.) and certify the payments are being received or not received.
	
	If (**and only if**) there is not a court appointed entity responsible for handling payments and formal documents were never issued, support payments can be certified as being received or not received.

Verification of Assets and Income from Assets and Investments **Preferred Source**	Form RD 3550-4, Employment and Asset Certification, will be used to confirm the level of the household's combined net assets. Obtain the two most recent complete bank or brokerage statements showing the transaction history and the current balance. If account information is reported on a quarterly basis, obtain the most recent quarterly statement. To further document interest and dividend income the applicant must provide copy of Federal tax forms and schedules clearly identifying income from interest, dividends, and capital gains. For some assets such as mutual funds or 401(k) accounts, copies of year-end statements can provide information about annual income.

	If the Loan Originator has reasons to question the accuracy of the applicant's self-certification or bank statements, the Loan Originator sends Form RD 1944-62, Request for Verification of Deposit, to financial institutions to verify account balances.
Verification of Gifts **Preferred Source**	If funds needed for the purchase will be provided by an organization or another person not living in the household, the Loan Originator must send the donor Form RD 3550-2, Request for Verification of Gift/Gift Letter, to verify whether the gift must be repaid and whether the funds have already been transferred. Form RD 3550-2 is used to verify gifts that are non-recurring and intended for down payment or closing costs purposes only.
Verification of Recurring Gifts **Preferred Source**	For recurring gifts, if there is no history of the gift being received prior to application and the gift amount is needed to establish the applicant has repayment ability, the Loan Originator must determine and document that the gift is stable and dependable.

DEDUCTIONS	
Type of Expense or Verification Source	**Verification Requirements and Procedures**
Disability Assistance Expenses **Preferred Source**	To qualify for disability deductions, the applicant must describe the nature of the expense, provide documentation of the costs, and demonstrate that the expense enables a family member to work. If the household member receives a form of income because of a verified disability (such as social security disability or disability compensation), that may be used as a method to verify the disability. Otherwise, Form RD 1944-4, Certification of Disability or Handicap, should be used to have a physician or other medical professional verify the household member's disability.
Medical Expenses **Preferred Source**	For elderly households only, allowable medical expenses may be deducted from annual income. Therefore, documentation of medical expenses is not generally required for non-elderly households. In such cases, these medical expenses must be verified as well. Appendix 2 provides a sample format for documenting medical expenses.
Childcare Expenses	Reasonable childcare expenses may be deducted from annual income. To qualify for the deduction, the applicant must: • Identify the children receiving child care and the family member who can work or go to school as a result of the care; • Demonstrate there is no adult household member available to care for the children; • Identify the child care provider, hours of care provided, and costs (e.g., letter on the child care provider's letterhead or a copy of a signed child care contract); and • Identify the educational institution and provide documentation of enrollment (if appropriate). Appendix 2 provides a sample format for requesting childcare information.

1. Timing

Documentation used to verify employment, income, assets, and deductions must be no more than 120 days old, or 180 days old for new construction by closing date. If any of the verification documents are older than allowed, the Loan Originator must update them before settlement. The age of certain documents, such as divorce decree and tax returns, do not necessarily affect the validity of the underwriting decision. These types of documents are exempt from the document age restriction unless there is evidence that the applicant's circumstances have changed thus warranting updated verifications.

2. Projecting Expected Income for the Next 12 Months

Once an income source is verified, the Loan Originator must project the expected income from this source for the next 12 months. This projection should be based on a comparison and analysis of the figures derived from using all applicable calculation methods. To establish earning trends and avoid miscalculating income (especially from seasonal income), the more methods used the better. However, some income sources will only lend themselves to one method. In some cases, there may be multiple types of income generated from one source (overtime, bonus, hourly); therefore the income calculation method used will depend on the type of income received, rather than the source of income. The four calculation methods are:

- Straight-based where the benefit or wage amount is converted to the annual equivalent.
- Average where the income as reported on the benefit statements or pay stubs for the last 30 days is averaged and then converted to the annual equivalent.
- Year-to-date (YTD) where the YTD gross earnings are divided by the YTD interval, which is the number of calendar days elapsed between January 1 of the current year and the last date covered by the most recent income verification, and then multiplied by 365. The earning activity during the YTD interval should be closely examined to determine the appropriateness of this method. Do not use this method if the earning activity during the YTD interval is insufficient to make an annual projection or is not reflective of the likely earning activity for the period outside the YTD interval (the time between the last date covered by the most recent income verification and December 31 of the current year).
- Historical where the income as reported on the previous year's tax return is used. Any declining income trend, especially for repayment income, must be carefully document in the underwriting analysis.

After the Loan Originator determines the suitable methods and performs the calculations, he/she must determine which figure is most representative of income likely to be received during the next 12 months. If the figures are disparate and one figure is not clearly the most representative, an average of the resulting figures may be used. Selecting the lowest figure without analysis is not acceptable. The selection must be carefully deliberated and may require additional verification.

Example - Projecting Expected Income for the Next 12 Months

Ken Anderson has worked for B & N Auto for the last two years. According to the application, Mr. Anderson reported that he earns $10/hour, works 40 hours per week. His employer orally verified that he is expected to work 25 hours of overtime in the next 12 months. Since Mr. Anderson is paid weekly, he submitted his last four pay stubs through the pay period ending May 1st that show gross pay (including overtime) of $460, $415, $475, and $445. It also shows gross YTD earnings of $5,885. Mr. Anderson's tax return for last year showed gross wages of $16,640.

Straight-based: Base pay: $10/hour x 40 hours/week x 52 weeks/year = $20,800

Overtime: $15/hour x 25 hours/year = $375

Total wages: $21,175

Average: ($460 + $415 + $475 + $445) / 4) x 52 weeks/year

= $23,335

YTD: ($5,885 / 121 days) x 365 = $17,754

Historical: $16,640

Looking at the four results, there is no clear earning pattern. The Loan Originator should investigate further to determine why significant discrepancies exist between the calculation methods and what figure should be used. Is B & N experiencing an unusual and temporary large workload? Was Mr. Anderson absent from work for an extended period of time? Did Mr. Anderson receive a pay increase from last year? These are just a few examples of the questions that should be answered.

NOTE: These calculations should be documented in writing and included in the case file.

3. Income of Temporarily Absent Family Members

Household members may be temporarily absent from the household for a variety of reasons, such as temporary employment or students who live away from home during the school year. The income of these household members is considered when computing annual income and, if the person is a party to the note, for repayment income.

If the absent person is not considered a member of the household and is not a party to the note, the Loan Originator must not count their income, must not consider them when determining deductions for adjusted income, and must not consider them as a family member for determining which income limit to use.

Examples - Temporarily Absent Family Member

James Brown and his wife have applied for a loan. At the moment, James is working on a construction job on the other side of the State and comes home every other weekend. He earns $600/week and uses approximately one-third of that amount for temporary living expenses. The full amount of the income earned would be counted for both repayment and annual income.

Adam Watson works as an accountant. However, he suffers from a disability that periodically requires lengthy stays at a rehabilitation center. When he is confined to the rehabilitation center, he receives disability payments equaling 80% of his usual income. During the time he is not in the unit, he will continue to be considered a family member. Even though he is not currently in the unit, his total disability income will be counted as part of the family's annual income.

Desirae Bitz accepts temporary employment in another location and needs a portion of her income to cover living expenses in the new location. The full amount of the income must be included in annual income.

Terri Glass is on active military duty. Her permanent residence is her parents' home where her husband and children live. Terri is not currently exposed to hostile fire. Therefore, because her spouse and children are in the parents' home, her military pay must be included in annual income. (If her spouse or dependents were not in the parent's home, she would not be considered a family member and her income would not be included in annual income.)

4.4 CALCULATING ANNUAL AND ADJUSTED INCOME

Adjusted income is used to determine eligibility for the Section 502 and 504 programs, as well as eligibility for and the amount of payment subsidies under Section 502.

A. Calculating Annual Income

Annual income is used as the base for computing adjusted income. Income of all household members, not just parties to the note, should be considered when computing annual income.

B. Calculating Deductions from Annual Income

Adjusted income is calculated by subtracting from annual income any of 5 deductions that apply to the household. Not all households are eligible for all deductions. Exhibit 4-2 summarizes these deductions. The remainder of this paragraph provides guidance on determining whether a family is eligible for each deduction and verifying and calculating these amounts.

Exhibit 4-2
Allowable Deductions from Annual Income

Deduction	Elderly Households	Nonelderly Households
Dependent Deduction	Yes	Yes
Child Care Expenses	Yes	Yes
Elderly Household	Yes	No
Medical Expenses	Yes	No
Disability Assistance	Yes	Yes

C. Dependent Deduction

A deduction from annual income of $480 is made for each household member who qualifies as a dependent. Dependents are members of the household who are not the borrower, co-borrower, or spouse, are age 17 or younger, are an individual with a disability, or are a full-time student. The applicant/borrower, co-applicant/co-borrower, or spouse of applicant/borrower (even if the household member is temporarily absent) may never qualify as a dependent. A foster child, an unborn child, a child who has not yet joined the family, or a live-in aide may never be counted as a dependent.

D. Child Care Expenses

Reasonable unreimbursed child care expenses for the care of children age 12 and under are deducted from annual income if:

(1) the care enables a household member to work, actively seek employment, or go to school;

(2) no other adult household member is available to care for the children; and

(3) in the case of child care that enables a household member to work, the expenses deducted do not exceed the income earned by that household member. This limitation does not apply if the child care allows a household member to go to school.

If the child care provider is a household member, the cost of the children's care cannot be deducted.

Child care attributable to the work of a full-time student (except for applicant/borrower, co-applicant/co-borrower, or spouse of applicant/borrower) is limited to not more than $480, since the employment income of full-time students in excess of $480 is not counted in the annual income calculation. Child care payments on behalf of a minor who is not living in the household cannot be deducted.

To qualify for the deduction, the applicant must:

- Identify the children who are receiving child care and the family member who can work, seek employment or go to school (academic or vocational) as a result of the care;
- Demonstrate there is no adult household member available to care for the children during the hours care is needed;
- Identify the child care provider, hours of child care provided, and costs;
- Verify the expense is not reimbursed by an agency or individual outside the family; and
- If the expenses enable a family member to go to school, identify the educational institution. The family member need not be a full-time student.

Verification of Child Care Expenses

Child care hours must parallel the hours the family member works or goes to school. Appendix 2 provides a sample format applicants can use to document child care. Other acceptable formats include a letter on the child care provider's letterhead or a copy of a signed child care contract.

Example – Child Care Deduction
Separate Expenses for Time at Work and Time at School

Lou and Bryce have two children. Both parents work, but Lou works only part-time and goes to school half-time. She pays $4 an hour for eight hours of child care a day. For four of those hours, she is at work; for four of them she attends school. She receives no reimbursement for her child care expense.

Her annual expense for child care during the hours she works is $4,000 and at school is $4,000. She earns $6,000 a year. Bryce earns $18,000.

Lou's child care expense while she is working cannot exceed the amount she is earning while at work. In this case, that is not a problem. Lou earns $6,000 during the time she is paying $4,000. Therefore, her deduction for the hours while she is working is $4,000.

Lou's expense while she is at school is not compared to her earnings. Her expense during those hours is $4,000 and her deduction for those hours will also be $4,000.

Lou's total child care deduction is $8,000 ($4,000 + $4,000). The total deduction exceeds the amount of Lou's total earnings, but the amount she pays during the hours she works does not exceed her earnings. If Lou's child care costs for the hours she worked were greater than her earnings, she would not be able to deduct all of her child care costs.

E. Elderly Household Deduction

A single $400 deduction is subtracted from annual income for any elderly household. To be considered an elderly household, a party to the note must be 62 years of age or older or an individual with a disability. Because this is a "family deduction" each household receives only one deduction, even if more than one member is elderly or disabled.

Typical Disability Expenses

- Care attendant to assist an individual with disabilities with activities of daily living directly related to permitting the individual or another family member to work.
- Special apparatus, such as wheelchairs, ramps, adaptations to vehicles or work place equipment, if directly related to permitting the individual with disabilities or another family member to work.

In the case of a family where the deceased applicant/borrower or spouse was at least 62 years old or an individual with disabilities, the surviving family member shall continue to be classified as an "elderly household" for the purposes of determining adjusted income if:

- At the time of death of the deceased family member, the dwelling was financed by the Agency;
- The surviving family member occupied the dwelling with the deceased family member at the time of death; and
- The surviving spouse (if any) has not remarried.

F. Deduction for Disability Assistance Expense

Families are entitled to a deduction for un-reimbursed, anticipated costs for attendant care and "auxiliary apparatus" for each family member who is a person with disabilities, to the extent these expenses are reasonable and necessary to enable any family member 18 years of age or older who may or may not be the member who is a person with disabilities (including the member who is a person with disabilities) to be employed. The applicant must describe the nature of the expense, provide documentation of the costs, and demonstrate that the expense enables a family member to work. Reasonable documented expenses for care of the individual with disabilities in excess of 3 percent of annual income may be deducted from annual income if the expenses:

- Enable the individual with disabilities or another family member to work;
- Are not reimbursable from insurance or any other source; and

- Do not exceed the amount of earned income included in annual income by the person who is able to work as a result of the expenses. If the disability assistance enables more than one person to be employed, the combined incomes of all persons must be included.

To qualify for this deduction, applicants must identify the individual with a disability on the application. Form RD 1944-4, Certification of Disability or Handicap should be used to request verification of the individual's disability from a physician or other medical professional.

Example – Eligible Disability Assistance Expenses

The payments made on a motorized wheelchair for the 42-year-old son of the applicant/borrower enable the son to leave the house and go to work each day on his own. Prior to purchase of the motorized wheelchair, the son was unable to make the commute to work. These payments are an eligible disability assistance expense.

NOTE: Auxiliary apparatus includes, but is not limited to, items such as wheelchairs, ramps, adaptations to vehicles, or special equipment to enable a sight-impaired person to read or type, but only if these items are directly related to permitting the disabled person or other family member to work. If the apparatus is not used exclusively by the person with a disability, the total cost must be prorated to allow a specific amount for disability assistance.

- **Include payments on a specially-equipped van to the extent they exceed the payments that would be required on a car purchased for transportation of a person who does not have a disability.**
- **The cost of maintenance and upkeep of an auxiliary apparatus is considered a disability assistance expense (e.g., veterinarian and food costs of a service animal; cost of maintaining equipment that is added to a car, but not the cost of maintaining the car).**

Payments to a care attendant to stay with a disabled 16-year-old child allow the child's mother to go to work every day. These payments are an eligible disability assistance expense. When the same provider takes care of children and a disabled person over age 12, prorate the total cost and allocate a specific cost to attendant care. The sum of both child care and disability assistance expenses cannot exceed the employment income of the family member enabled to work.

NOTE: Attendant care includes, but is not limited to, expenses for home medical care, nursing services, housekeeping and errand services, interpreters for hearing-impaired, and readers for persons with visual disabilities.

Example – Calculating a Deduction for Disability Assistance Expenses

Applicant/Borrower earned income	$14,500
Co-Applicant/Co-Borrower earned income	+$12,700
Total Income	$27,200
Care expenses for disabled 15-year-old	$ 3,850
Calculation:	$ 3,850
(3% of annual income)	-$ 816
Allowable disability assistance expenses	$ 3,034

(NOTE: $3,034 is not greater than amount earned by co-applicant/co-borrower, who is enabled to work.)

G. Deduction for Medical Expenses (for Elderly Households Only)

Medical expenses may be deducted from annual income for elderly households if the expenses: (1) will not be reimbursed by insurance or another source; and (2) when combined with any disability assistance expenses are in excess of 3 percent of annual income.

If the household qualifies for the medical expenses deduction, expenses of the entire family are considered. For example, if a household included the head (grandmother, age 64), her son (age 37), and her granddaughter (age 6), the medical expenses of all 3 family members would be considered.

Examples - Typical Medical Expenses

- Services of physicians, nurses, dentists, opticians, chiropractors, and other health care providers
- Services of hospitals, laboratories, clinics, and other health care facilities
- Medical, Medicaid and long-term care premiums, and expenses to HMO
- Prescription and nonprescription medicine prescribed by a physician
- Dental expenses, x-rays, fillings, braces, extractions, and dentures
- Eyeglasses, contact lenses, and eye examinations
- Medical or health products or apparatus (hearing aids, batteries, wheel chairs, etc.)
- Attendant care or periodic medical care (visiting nurses or assistance animal and its upkeep)
- Periodic scheduled payments on accumulated medical bills
- Travel expense and lodging for medical treatment

Examples - Excluded Medical Expenses

- Unnecessary cosmetic surgery to improve the patient's appearance such as face lifts, hair transplants/removal, and liposuction
- Health Club or YMCA dues, steam baths for general health or to relieve physical or mental discomfort not related to a particular medical condition
- Household help even if recommended by a doctor
- Medical savings account (MSA)
- Nutritional and herbal supplements, vitamins, and "natural medicines" unless these can be obtained legally only with a physician's prescription
- Non-prescription drugs unless prescribed by a physician for a particular medical condition
- Personal use items unless used primarily to prevent or alleviate a physical or mental defect or illness

One of the most challenging aspects of determining allowable medical expenses is estimating a household's medical expenses for the coming year. While some anticipated expenses can be documented easily (for example, Medicare or other health insurance premiums and ongoing prescriptions), others need to be estimated. The Loan Originator should use historical information about medical bills to estimate future expenses. However, the estimates should be realistic. For example, if the household has a significant medical bill, the Loan Originator would count only that portion of the bill that is likely to be paid during the coming year.

Example - Calculating the Medical Expense Deduction

The Jensons are an elderly household with annual income of $25,000 and anticipated medical expenses of $3,000 that are not covered by insurance or another source. The allowable medical expenses would be:

Total Medical Expenses	$3,000
(less) 3% Annual Income	$ 750
($25,000 x 0.03)	
Allowable Medical Expenses	$2,250

Example – Medical Expense Paid over a Period of Time

Chynna Ray and Justin Grog did not have insurance to cover Justin's operation four years ago. They have been paying $105 a month toward the $5,040 debt. Each year that amount

($105 x 12 months or $1,260) has been included in total medical expenses. A review of their file indicates that a total of $5,040 has been added to total medical expenses over the four-year period. Over the four-year period they have missed five payments and still owe $525. Although they still owe this amount, the bill cannot be included in their current medical expenses because the expense has already been deducted.

H. Calculating Repayment Income

Repayment income is the amount of the household's income that is available to repay the Agency's debt. To compute repayment income, the Loan Originator should count only the income of persons who will be parties to the note.

The Standard PITI and TD ratio limitations are based on an assumption that applicant income is taxable. If a particular source of income is not subject to Federal taxes, for example, certain types of disability payments or military allowances, the amount of continuing tax savings attributable to the nontaxable income source **will** be added to the applicant's repayment income.

Nontaxable income, such as Housing Choice Vouchers, social security, and child support (provided it is stable and is expected to continue for at least two years), will be multiplied by 120 percent to "gross up" such income.

Example – "Grossing Up" Nontaxable Income

The applicant's repayment income of $22,000 includes $5,000 of nontaxable income.

The revised repayment income for the applicant would be calculated as follows:

$17,000	Taxable income
+ 6,000	"Grossed-Up" Nontaxable Income ($5,000 x 1.2)
$23,000	Revised Repayment

Under current tax law some State and local issuers of mortgage bonds may issue MCC to provide a Federal income tax credit to assist low-income home buyers and home owners. The credit permits an eligible household to claim a specific percentage of the annual interest paid on a mortgage as a tax credit rather than a deduction. If an applicant will receive the credit, the benefit of the credit will be "grossed up" for the repayment ability income calculation as described in Paragraph 4.4 H when the applicant adjusts their Federal tax withholdings via IRS Form W-4 to reflect the decrease in their tax liability. MCCs are issued through private lenders and rarely encountered in the 502 Direct program.

SECTION 2: EVALUATING BORROWER ASSETS [7 CFR 3550.54(d)]

4.5 OVERVIEW OF POLICIES RELATED TO ASSETS

Assets affect an applicant's ability to obtain a loan in 2 ways. First, applicants may be required to use non-retirement assets to make a down payment covering some of the costs of purchasing a home. Second, many types of assets generate income that must be included in the calculations of annual and repayment income. An applicant's assets are considered for annual and repayment income, as well as for down payment purposes, as applicable. Net family assets are considered for annual income and down payment purposes, as applicable, but shall be excluded from repayment income. Asset documentation may also provide useful information for loan underwriting. Exhibit 4-3 presents a list of assets that must be considered when making these determinations and also identifies certain types of assets that are not considered.

Exhibit 4-3
Types of Assets

The following types of assets must be considered. Non-retirement assets including:

- Savings accounts; the average 2-month balance of checking accounts; safe deposit boxes;
- Stocks, bonds, Treasury bills, savings certificates, money market funds, and other investment accounts;
- Equity in real property or other capital investments;
- Revocable trust funds that are available to the household;
- Lump-sum receipts, such as inheritances, capital gains, lottery winnings and settlement on insurance claims (including health and accident insurance, worker's compensation, and personal or property losses);
- Assets held in foreign countries; and
- Personal property (such as jewelry, coin collection or antique cars) held as an investment.

Retirement assets (applicants only) including:

- Amounts in voluntary retirement plans that can be withdrawn, such as individual retirement accounts (IRAs), 401(k) or 403(b) plans, and Keogh accounts; and
- Amounts in other retirement and pension plans that can be withdrawn without retiring or terminating employment.

The following types of assets are not considered.

- The value of necessary items of personal property, such as furniture, clothing, cars, wedding rings and other jewelry not held as an investment, and vehicles specially equipped for persons with disabilities;
- Assets that are part of any business, trade, or farming operation in which any member of the household is actively engaged;
- The value of an irrevocable trust fund, or the value of any trust over which no member of the household has control;
- Term life insurance policies where there is no cash value;
- Interests in American Indian restricted land;
- The value of tax advantaged health, medical savings or spending accounts, and college savings plans; and
- For income calculations, any assets on hand that will be used to reduce the amount of loan.

Example – Assets that are Part of an Active Business

Megan and Tylar Wasson own a copier and courier service. None of the equipment that they use in their business is counted as an asset (e.g., the copiers, the fax machines, the bicycles).

A. Reporting Assets

Applicants must provide information about household assets at the time of loan application and whenever an income determination is made. Applicants must provide sufficient documentation to enable the Loan Originator to verify the asset information and compute the market and cash value of the asset. Applicants must provide assets documentation as required on Paragraph 4.3 regardless of the balance or value of the assets disclosed. In addition, Form RD 3550-4, Employment and Asset Certification, will be used to confirm the level of the household's combined net assets.

B. Verification of Assets

Copies of bank or brokerage company statements provide more information than just account balances. The transaction history reveals recurring deposits or debits that may impact the applicant's ability to qualify for a loan. Assets statements must cover account activity for the most recent two-month period (or, if account information is reported on a quarterly basis, for the most recent quarter). Loan originators must:

- Confirm that the applicant has enough funds for closing.
- Obtain a credible explanation from the applicant regarding the source of funds for any large deposits or increase in the account balance. A large deposit may be the proceeds from a new personal loan not yet reported to the credit bureaus.

C. Calculating Market and Cash Value

The **market value** of an asset is simply its dollar value on the open market. For example, the market value of $2,000 in a savings account is $2,000 and the market value of real estate is its appraised value. The **cash value** of an asset is the market value, less reasonable expenses to convert the asset to cash. For example, the cash value of stock worth $5,000 would be $5,000 less any broker's fee.

D. Retirement Assets

Retirement assets are savings and investments that have been specifically designated as retirement funds. Access to retirement assets is restricted by law, employer policy, or both, depending on the retirement arrangement's legal form. Typical restrictions include retirement age, vesting requirements, and ability to access funds.

Typical Retirement Plans

- Employer-sponsored retirement plans: 401(k), 403(b), 457 plans, employer and employee association trust accounts, money purchase plans, profit-sharing plans, SEP-IRAs (Simplified Employee Pensions) and SIMPLE IRAs (Savings Incentive Match Plans for Employees).
- Individual Retirement Arrangements (IRAs): Traditional IRA, Roth IRA, and Keogh plans.

Example – Withdrawals from IRAs or 401(k) Accounts

Jim Dunn retired recently. He has an IRA account but is not receiving periodic payments from it because his pension is adequate for his routine expenses. However, he has withdrawn $2,000 for a trip with his children. The withdrawal is not a periodic payment and is not counted as income.

4.6 LIMITATIONS ON ASSETS

If the cash value of non-retirement assets is greater than $15,000 for nonelderly households or $20,000 for elderly households, the cash value in excess of these amounts must be used toward the purchase of the property.

Applicants will not be required to use retirement assets as a down payment, regardless of their retirement status.

4.7 CALCULATING INCOME FROM ASSETS FOR ANNUAL INCOME

For the purpose of computing annual income, the current assets (retirement and non- retirement) of all applicants and co-applicants, as well as applicable net family assets, are considered. Reference Exhibit 4-1 for additional information.

4.8 CALCULATING INCOME FROM ASSETS FOR REPAYMENT INCOME

When calculating assets for repayment income, only the assets of the note signers are considered, and the actual income derived from the assets, which are determined stable and dependable, are used. Form RD 3550-4, Employment and Asset Certification, should be used to certify the level of the household's net family assets.

SECTION 3: CREDIT HISTORY [7 CFR 3550.53(h)]

4.9 OVERVIEW

To be eligible for a Section 502 loan, applicants must demonstrate that they are reasonably able and willing to repay an Agency loan. This section discusses the credit requirements, the additional credit checks, how to conduct the full credit history review, when to use Form RD 1944-61, and the criteria for making credit exceptions.

4.10 CREDIT REQUIREMENTS

The Loan Originator must evaluate the credit history of each proposed party to the note. An applicant's credit record does not have to be perfect; a few instances of credit problems can be acceptable if an applicant's overall credit record demonstrates an ability and willingness to repay obligations. Exhibit 4-4 outlines indicators of unacceptable credit that must be investigated by the Loan Originator. These indicators are not automatic disqualifiers. The Loan Approval Official can make exceptions in limited circumstances, as described in Paragraph 4.14.

The Loan Originator must investigate indicators of unacceptable credit to determine whether they are accurate, and whether there is an acceptable explanation for the problem that might justify an exception. Failure to understand the nature of a credit problem could put the Agency at risk of providing financing to an applicant who is unable or unwilling to repay the debt, or could cause the Agency to reject an applicant on the basis of inaccurate or incomplete information.

Cosigners

Cosigners must meet the same credit-worthiness requirements as applicants and cannot be used to compensate for an applicant's unacceptable credit history.

For instance, an applicant with little or no credit history reflected on a credit report will require further examination. Since some creditors do not report to the credit repositories, the Loan Originator should identify nontraditional credit sources to develop a credit history. Nontraditional credit information that may demonstrate the applicant's ability and willingness to meet debt obligations should be verified using the guidelines in Paragraph 4.12, which include third party verifications from impartial and unrelated parties, canceled checks that cover a sufficient period of time, or other acceptable means.

Exhibit 4-4
Indicators of Unacceptable Credit

- Little or no credit history. The lack of credit history on the credit report may be mitigated if the applicant can document a willingness to pay recurring debts through other acceptable means such as third party verifications or canceled checks. Due to impartiality issues, third party verifications from relatives of household members are not permissible.
- Payments on any installment account, on a per account basis, where the amount of the delinquency exceeded one installment for more than 30 days within the last 12 months.
- Payments on any revolving account, on a per account basis, which was delinquent for more than 30 days on two or more occasions within the last 12 months.
- A foreclosure that has been completed within the last 36 months.
- An outstanding Internal Revenue Service (IRS) tax lien or any other outstanding tax liens with no satisfactory arrangement for payment.
- Two or more rent or mortgage payments paid 30 or more days late within the last 2 years. If the applicant has experienced no other credit problems in the past 2 years, only 1 year of rent history will be evaluated. This requirement may be waived if the program loan will reduce shelter costs significantly and contribute to improved repayment ability.
- Outstanding collection accounts with a record of irregular payments with no satisfactory arrangements for repayment, or collection accounts that were paid in full within the last 6 months, unless the applicant had been making regular payments previously.
- Non-Agency debts written off within the last 36 months, unless the debt was paid in full at least 12 months ago.
- Agency debts that were debt settled within the past 36 months, or are being considered for debt settlement.
- Delinquency on a federal debt.
- A court-created or court-affirmed obligation or judgment caused by nonpayment that is currently outstanding or has been outstanding within the last 12 months, **except**:
  - ◊ A bankruptcy in which:
  - ◊ Debts were discharged more than 36 months prior to the date of application; or
  - ◊ Where an applicant successfully completed a bankruptcy debt restructuring plan and has demonstrated a willingness to meet obligations when due for the 12 months prior to the date of application.
  - ◊ A judgment satisfied more than 12 months before the date of application.

An applicant with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court, is not eligible for a Section 502 loan. This requirement is statutory and cannot be waived.

If an applicant's credit history is unacceptable, the Loan Originator should counsel the applicant about the specific problems identified, and ways to improve the household's credit record for the future. The Loan Originator should make it clear that establishing a pattern of meeting obligations that conforms to the Agency's standards might make it possible for the applicant to qualify for a Section 502 loan in the future.

The Loan Originator must use consistent standards and procedures when evaluating credit qualifications to ensure equity and fairness. Special areas of concern include:

- Determining what constitutes acceptable documentation;
- Counseling applicants about ways to correct adverse credit; and
- Interpreting subjective information.

4.11 CONDUCTING ADDITIONAL CREDIT CHECKS

Over and above ordering a Tri-Merge Credit Report (TMCR), the Loan Originator should check the Department of Treasury's Do Not Pay (DNP) portal and MortgageServ's "SSN CROSS REFERENCE" softlink key.

A. Do Not Pay Portal

Except in very unusual circumstances, an applicant who is delinquent on a Federal debt is not eligible for the direct programs. The Loan Originator can verify whether the applicant has delinquent Federal debt through the DNP portal.

Rural Development staff should visit the Agency's DNP SharePoint page for more information including training, FAQ's, newsletters, etc.:
https://usdagcc.sharepoint.com/sites/rd_cfo/icd/DoNotPay/SitePages/Home.aspx

Through the DNP portal, the following data sources will be checked: Credit Alert System; SAM Exclusion Records; SSA Death Master File; and Treasury Offset Program Debt Check.

For the Credit Alert System, a checked result (i.e. a hit was return) could indicate a "Case Type" of B (multiple hits), C (claim), D (default), F (foreclosure), or J (judgment). The applicant has no adverse credit found in the Credit Alert System if there is no checked result.

The Loan Originator should print the DNP results page and file it in the applicant's case file to document that the applicant's delinquency status has been checked.

Exceptions to Delinquent Federal Debt

If the applicant has a delinquent Federal debt, the Administrator has the authority to grant an exception if arrangements for payment have been made and it is in the best interest of the Government.

If DNP indicates that the applicant has a delinquent Federal debt, the Loan Originator should suspend application processing, notify the applicant of the reason for the suspension, and provide the telephone number DNP lists as a point of contact for resolving the delinquency. If the applicant does not notify the Agency within 15 days that the problem has been resolved, the Loan Approval Official must reject the application and the applicant should be notified in writing. The Administrator may grant an exception to this requirement if it is in the best interest of the Government.

If the delinquency is paid in full or otherwise resolved within the 15-day time frame, application processing can continue. If the applicant resolves the issue after the application has been rejected, and wishes to reapply, the applicant must submit a new application, which must be processed according to the new submission date.

A. Infile Credit Report

Infile credit reports can only be used for pre-qualification reviews completed by Agency staff, which should be limited as outlined in Section 1 of Chapter 3.

Infile credit reports will not be obtained for 502 direct packaged loan applications, as the packager is responsible for conducting the pre-qualification review. The only credit report pulled by the Agency will be a TMCR when a complete 502 direct application is received.

Infile credit reports will be obtained by the Agency for all 504 applicants with adjusted income greater than 30% of adjusted median income, regardless of the size of the loan being requested.

Since infile credit reports for pre-qualifications and TMCRs for complete applications are considered a hard inquiry on the applicant's credit report, care must be taken to avoid unnecessary orders. Do not order an infile credit report to confirm that a debt has been paid or for other similar reasons and do not order an infile credit report once an application has been received.

4.12 CONDUCTING FULL REVIEW OF CREDIT HISTORY

Once a complete application is received, the Loan Originator must order a tri-merge credit report through UniFi. When an incomplete application packet and credit report fee have been received, the Loan Originator will order the tri-merge credit report through UniFi as long as, at a minimum, Form RD 3550-1, Authorization to Release Information has been received. Otherwise, the fee must be returned to the applicant if it cannot be deposited within 3 business days of receipt.

Helpful Hint

Unless the applicant makes a written request for a copy of their tri-merge credit report, the Agency will not provide a copy. Applicants are not entitled to a copy of their infile credit report that may have been pulled during the pre-qualification process.

A credit report from another party (e.g. Self-Help Grantee, loan application packager, or leveraged lender) cannot be used in the Agency's decision-making process. The Loan Originator must also obtain the applicable third-party credit verifications to determine whether the applicant's credit history meets the Agency's criteria.

Procedures for obtaining third-party verifications are described in Paragraph 3.15. Guidelines for reviewing the applicant's credit history are provided here.

If an applicant is denied assistance based upon information contained in a tri-merge credit report, the Agency must provide the applicant:

- The name, address, and toll free number of the credit bureau;
- A statement to the applicant that the denial of their loan request was made by the Agency, and not the credit bureau;
- Notice of their right to obtain a free copy of their credit report from the credit bureau within 60 days from the date of the Agency's adverse action; and
- Notice of the applicant's right to dispute to the credit bureau the accuracy or completeness of the credit report provided to the Agency.

A. Tri-Merge Credit Report

The Tri-Merge Credit Report (TMCR) will include Equifax Beacon 5.0, TransUnion FICO Risk Score 04, and Experian Fair Isaac v2 credit scores, if available. The report will include data from the three main repositories, updated verifications on all trade lines with a balance (updated to within 90 days), and a court records check that includes adverse items for the prior 7-year period. The TMCR will also provide the results of a check against the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) database. OFAC administers and enforces economic and trade sanctions against targeted foreign countries, terrorists, international narcotics traffickers, and those engaged in activities related to the proliferation of weapons of mass destruction. If an OFAC match message appears on the TMCR, refer to the U.S. Treasury website at https://www.treasury.gov/about/organizational- structure/offices/Pages/Office-of-Foreign-Assets-Control.aspx for guidance on how to determine if the match is valid. If a due diligence review concludes that the match is valid, the applicant should be denied assistance and referred to the OFAC contact number for further information as per the aforementioned website. If there is no OFAC match message on the TMCR, or the match was not valid, processing may continue as directed in the following paragraphs.

For applicants with no outstanding judgments obtained by the United States in a Federal court, with no significant delinquency, and who have more than one credit score listed on their TMCR that result in a credit score of 640 or higher on their TMCR, Exhibit 4-4 need not be used to identify indicators of unacceptable credit handling. In addition, a verification of rent and Form RD 1944-61, Credit History Worksheet, need not be completed. These applicants are automatically classified as having acceptable credit histories regardless of what is listed on the TMCR. To avoid potential disparate treatment, additional credit analysis is not appropriate. Credit scores are used to reduce the time necessary to conduct credit analyses, **but under no circumstance can credit scores be used to make adverse decisions**.

An applicant with significant delinquency on the credit report, even with a credit score of 640 or higher, will be subject to further credit analysis and Form RD 1944-61 must be completed. Significant delinquency includes the following:

- A foreclosure, deed-in-lieu of foreclosure, short sale, or mortgage charge-off that has been completed within the last 36 months.
- A Chapter 7 bankruptcy discharged less than 36 months prior to the application date.

- A Chapter 13 bankruptcy where the applicant has not successfully completed the debt restructuring plan or has not demonstrated a willingness to meet obligations when considering the last 12-month payments made under the restructuring plan.

- Agency debts that were debt settled within the past 36 months, or are being considered for debt settlement.

Having an insufficient credit score does not mean the applicant has demonstrated inability or unwillingness to repay debt; it means the Loan Originator must obtain nontraditional credit sources to make this determination and use Form RD 1944-61, Credit History Worksheet to conduct the credit analysis. To preclude the use of Exhibit 4-4 to identify indicators of unacceptable credit handling, the following practice will be established:

- If the three credit scores are listed on the TMCR, the middle numerical score should be used.

- If the TMCR only contains two scores, the lower of the two should be used.

- If the TMCR only contains one score, a full credit analysis must be completed.

- If no score is available, the credit bureau will report a "zero." Zero in these cases has the literal meaning of null, or indicating there was not enough information or credit references for the statistical model to compute a credit score value.

- If there is more than one applicant, each applicant must be viewed separately.

- Loan Originators must obtain nontraditional credit verifications to augment a credit report if the applicant has less than two scores. However, non- traditional credit must never be used to enhance the credit of an applicant with a negligent credit history (poor payment history, excessive use of credit, over the credit limit balances, etc.) or to offset derogatory references found in the applicant's traditional credit report, such as collections and judgments, even if the traditional credit is insufficient.

If the resulting credit score is less than 640 and the TMCR contains any indicators of unacceptable credit as outlined in Exhibit 4-4, the Loan Originator should discuss the findings with the applicant and ask for third-party verifications that support the applicant's assertions. A copy of the TMCR must be retained in the case file. If the TMCR is expected to be more than nine months old when the underwriting decision is to be made or at the time of closing, a new report must be ordered at no cost to the applicant.

B. Fair and Accurate Credit Transactions

In accordance with the Fair and Accurate Credit Transactions (FACT) Act of 2003, the Agency is required to disclose to the applicant, upon request, the score that a credit bureau distributed and was used in connection with their loan. In addition, we are required to disclose the key factors affecting the applicant's credit scores. Therefore, Attachment 3-H, Credit Score Disclosure, must be provided to the applicant. It must be explained to the applicant that the credit score was not used to determine loan approval. The Agency only uses the credit score to presume acceptable credit in lieu of other credit underwriting practices.

Consumers also have the right to dispute information on their credit report, which they believe to be inaccurate. This can be done directly with the furnisher of credit, as well as a consumer reporting agency. Because the Agency's credit review may be subject to change upon resolution of a disputed account, Form RD 1944-59, Certificate of Eligibility, or loan approval should not be issued until the dispute is resolved. Generally, disputes are investigated by the consumer reporting agency(s) within 30 to 45 days of receipt of the notice of dispute from the consumer; and written results of the investigation are provided to the consumer within 5 business days after completion of the investigation. For more information visit https://www.ftc.gov/ and http://www.consumerfinance.gov/askcfpb/.

The FACT Act also added a new section to the Fair Credit Reporting Act to prohibit creditors from obtaining or using medical information pertaining to a consumer in connection with any determination of the consumer's eligibility, or continued eligibility, for credit.

Consumer reporting agencies are prohibited from providing a lender with a credit report that contains identifying information for medical debts (be it a collection, judgment, etc.). The name of the medical service provider and the nature of the medical service is suppressed or coded so that lender decisions are not based on discriminatory factors. However, suppression or coding of identifying information for medical debts does not eliminate the need for consideration. Medical debts that are chronically late, placed in collection, or turned into judgments remain indicators of unacceptable credit handling that must be addressed (unless the applicant has a credit score of 640 or higher).

Since the indicators of unacceptable credit handling are general guidelines that aid in determining the degree of risk and are not absolute underwriting criteria, the Loan Originator must subjectively consider the circumstances that resulted in the blemished debt. If the identifying information for a medical debt is suppressed or coded and the applicant is claiming that the debt resulted from a situation that was beyond their control, the applicant must provide adequate third-party documentation to support their claim.

If the applicant cannot identify the medical debt given the payment information (date opened, balance owing, etc.), the applicant will have to contact the repository directly to obtain a copy of their credit report. Credit reports provided by a repository directly to a consumer will not have the medical information suppressed. To avoid a fee, the applicant can obtain a free credit report by calling 1-877-322-8228 or logging into https://www.annualcreditreport.com. By law, individuals are entitled to receive one free credit file disclosure every 12 months from each of the nationwide consumer credit reporting companies – Equifax, Experian and TransUnion.

An exception cannot be granted on that the applicant's assertion that they were unaware of the blemished debt or that the blemished debt is not theirs. Supporting documentation must be furnished before a Loan Approval Official considers granting an exception.

A. Other Credit Verifications

If, and only if, the applicant's credit score is less than 640, the Loan Originator should send Form RD 1944-60, Landlord's Verification, and Form RD 410-8, Applicant Reference Letter, to the parties indicated in the application. The forms should be accompanied by a preaddressed, pre-stamped envelope and Form RD 3550-1, Authorization to Release Information, which authorizes the respondent to release the information.

1. Landlord's Verification

Form RD 1944-60 is used to verify the applicant's past record of making timely rental payments. The Loan Originator should generate separate copies of Form RD 1944-60 for each landlord listed on the application for the past 2 years. A landlord's verification is required when the applicant's credit score is less than 640.

If the landlord reports that during the past 24 months (or whatever is applicable) the applicant "always pays by the due date" and is current on the rent, the applicant's rental history should be considered satisfactory. If the landlord reports that the applicant "pays over 30 days late" or "generally stays behind schedule," or if the applicant is currently behind on the rent, the Loan Originator should follow up with a call to the landlord.

Confirmation that the applicant has paid 2 or more rent payments 30 or more days late within the last 2 years generally would be an indicator of unacceptable credit. However, if the amount of rent paid by the applicant was significantly higher than the likely cost of principal, interest, taxes and insurance (PITI) with a Section 502 loan, an exception might be appropriate.

2. Applicant Reference Letter

Form RD 410-8 is used to obtain information about an applicant's credit history that might not appear on a credit report, for example, credit from a local store. It can be used to document an ability to handle credit effectively for applicants who have not used sources of credit that appear on a credit report. It also provides a mechanism for following up on repayment history for debts reported by the applicant on the application that do not appear on the credit report.

3. Non Traditional / Alternative Credit

For applicants who do not use traditional credit, or that have less than two credit scores, the Loan Originator must develop a credit history from at least three sources. However, only two sources are required if one of those is a verification of rent or mortgage payments.

A combination of traditional and nontraditional sources may be used to develop the credit history; and the non-traditional payments should have been made for at least 12 months within the past 24 months from the date of the credit report.

Loan Originators must verify that the providers of nontraditional credit exist, and confirm that the applicant, in fact, has credit history with the creditor. Payments made to relatives for credit sources are ineligible as a nontraditional credit reference.

a. **Verification of a Nontraditional Credit Provider**: To verify the credit provider information, Loan Originators must use a published address or telephone number for that creditor, such as listing in the yellow pages.

b. **Confirming the Existence of a Nontraditional Credit**: Documentation to confirm that the nontraditional credit exists and that the applicant has sufficient credit references to evaluate his/her ability and willingness to repay debt may include a sufficient payment history from the following sources:

- **Preferred Sources**: Rental housing; utilities (if not included in the rent payment); telephone service, cable television, and internet service; insurance payments (payroll deductions to pay for insurance premiums are not considered alternative credit).

- **Alternative Sources**: Payments to child care providers (provided the provider is an established child care business); school tuition; payments to local retail stores; storage units companies; payment arrangements for the uninsured portion of any medical bills; a history of saving by regular deposits resulting in a balance equal to three months of the proposed mortgage payments; and similar credit sources. Child support paid is not an acceptable source.

The payment history may be obtained by sending Form RD 410-8, Applicant Reference Letter, to the nontraditional creditors indicated by the applicant or by obtaining canceled checks, money order receipts, billing statements, and/or payment history print-outs from the creditor. Loan Originators should carefully evaluate the billing statements to establish the payment history (past due amounts, late payment charges) for the Loan Approval Official's review. General statements such as "satisfactory" or "in good standing" are not sufficient to establish a satisfactory repayment history.

The payment history should cover 12 months within the past 24 months from the date of the application. However, other payment installments (such as quarterly or annually) can be considered when verifying nontraditional credit sources. When other payment installments are used, the length of the payment history should be adjusted accordingly. If the payments are made quarterly, verify that the last four payments were made. If the payments are made annually, verify that at least the last two payments were made.

B. Non-Purchasing Spouse Credit History

In community property states, the non-purchasing spouse's obligations must be considered in the total-debt ratio to determine the applicant's purchasing capacity, unless excluded by State law. However, the non-purchasing spouse's credit history is never considered a reason to deny a loan application. The Loan Originator must comply with applicable lending laws in community property states.

To assist the Agency in verifying the non-purchasing spouse's obligations, and since UniFi will allow the ordering of credit reports on applicants only, the applicant's non-purchasing spouse must provide a copy of a credit report (or reports) which contains information from each of the nationwide consumer credit reporting companies – Equifax, Experian, and TransUnion. The application will be considered incomplete until this information is provided. Ideally, the non-purchasing spouse will be able to furnish a copy of their free report obtained through https://www.annualcreditreport.com. The provided report (or reports) cannot be more than nine months old when the underwriting decision is to be made or at the time of closing. The Housing Program Director may waive this requirement on a case-by case if obtaining the non-purchasing spouse's credit report isn't feasible. For instance, the non-purchasing spouse is not a citizen or is an emancipated minor. The non-purchasing spouse's obligations will be evaluated in the same way the applicant's debts are evaluated and in accordance with the guidance in Paragraph 4.22.B. Unless excluded by State law, judgments of a non-purchasing spouse in a community property state will be paid in full unless an exception is obtained from the Loan Approval Official.

Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin. Puerto Rico allows property to be owned as community property as do several Indian jurisdictions. Alaska is an opt-in community property state, where property is separate unless both parties agree to make it community property through a community property agreement or a community property trust. As laws vary from state to state, Loan Originators should contact the appropriate Office of General Counsel with questions regarding the consideration of a non-purchasing spouse's credit history.

Exhibit 4-5
Guidelines for Evaluating Credit Reports

- Different credit bureaus or repositories present information in different formats. Be familiar with the different formats and take time in reviewing the report to avoid errors.
- Obtain clarification of any questionable items or terms (for example, terms such as "slow" or "late pay" have varied meanings). No decisions should be made until the terms in question are translated into defined terms (e.g., for this repository, "slow pay" means 30 days late). Document clarification of terms in the case file.
- Upon receiving the credit report, verify the name, address, and Social Security Number.
- Compare the employment information and rental data on the credit report, if available, with the information on the application.
- Compare the remainder of the credit report to the application. Consider the following questions when reviewing the application.
  - ◊ Are all the accounts reported on the credit report listed on the application? (Note: There may be additional accounts on the application that are not on the credit reports because not all creditors furnish information to a credit bureau or repository.)
  - ◊ Does any of the information on the credit report contradict the application?
  - ◊ What information indicates unacceptable credit? List late payments, charge offs and other relevant information.
  - ◊ Does the credit report have accounts included in a consumer credit counseling program? If so, document a12-months repayment history under the plan with all payments made on time and the applicant has written permission from the counseling Agency to enter into a mortgage transaction.
  - ◊ Does the applicant rely heavily on the use of revolving credit? Account balances that are at, near, or over the credit limit may indicate that the applicant is overextended.
  - ◊ Is the applicant responsible for the trade line or an authorized user? An authorized user account may not be considered when determining the applicant's creditworthiness unless the applicant provides supporting documentation to demonstrate that they have made the monthly payments for the past 12 months.
- If the credit report reflects no credit history, ask the applicant for other nontraditional credit that may demonstrate a willingness to pay recurring debts like rent, utilities, phone, medical, etc. Third party verifications from impartial and unrelated parties or canceled checks that cover a sufficient period of time are acceptable forms of documentation.
- Review the number and dates of credit inquiries. The presence of many and recent credit inquiries in different industries may indicate that the applicant is looking for credit to finance purchases. Confirm that the applicant has not obtained new credit that is yet to be reflected in the credit report.
- Highlight areas of concern and develop a list of questions or issues that need clarification from the applicant.

4.13 CREDIT HISTORY WORKSHEET

If the applicant's credit score is less than 640, Form RD 1944-61, Credit History Worksheet, must be used to summarize the applicant's credit history and to determine whether there are any indicators of unacceptable credit as outlined in Exhibit 4-4. The Loan Originator should complete this form and include it in the case file to aid the Loan Approval Official in reviewing the applicant's credit history. The Loan Approval Official must confirm the completeness and accuracy of this form before making a credit decision.

4.14 ASSESSING ADVERSE CREDIT

A. Making Exceptions

The Loan Originator should review the credit history for any signs of unacceptable credit using the criteria outlined in Exhibit 4-4. Credit history problems may be more reflective of an inability than an unwillingness to meet financial obligations. However, derogatory credit may also be the result of extenuating circumstances causing a significant reduction in income and/or increase in financial obligations. Extenuating circumstances are events beyond the applicant's control and unlikely to reoccur. The applicant must provide a letter to explain the nature of the event that led to the derogatory credit and provide supporting documentation accordingly. The Loan Approval Official must carefully review the documentation provided by the applicant to confirm that the adverse credit was in fact due to extenuating circumstances (e.g. the dates of the derogatory credit must be consistent with the dates of the event) and not financial mismanagement. The loan file must include an underwriting analysis explaining the rationale for the credit exception and determination that the events causing the financial difficulties were, in fact, beyond the applicant's control and are unlikely to reoccur.

The Loan Approval Official may consider an exception in the following types of situations.

- **Reduced shelter costs.** The applicant's rental or mortgage payment history has been unacceptable and the loan will significantly reduce the applicant's shelter costs, which will result in improved debt repayment ability. Anticipated utility cost savings due to energy efficiency improvements (e.g. furnace replacement, insulation, energy efficient windows, etc.) may also be considered a reduced shelter cost for an existing homeowner.

- **Temporary situation.** The circumstances that caused the credit problems were temporary in nature and beyond the applicant's control. Examples include loss of job, delay or reduction in benefits, illness, or dispute over payment of defective goods or services.

- **Benefit to the Government.** The applicant is delinquent on a Federal debt, and the Agency loan will allow the applicant to take actions that benefit the Government. **This type of exception can only be made by the Administrator.**

The Loan Approval Official is not authorized to make an exception in the case of an applicant with an outstanding judgment obtained by the United States in a Federal court, other than the United States Tax Court.

B. Reviewing Significant Delinquencies

1. Chapter 7 Bankruptcy

A Chapter 7 bankruptcy, also known as liquidation bankruptcy, eliminates all of an individual's unsecured debt. Applicants with a Chapter 7 bankruptcy discharged more than 36 months prior to the loan application are not considered to have unacceptable credit as long as they have re-established good credit. Re-establishing good credit includes consistently making payments on time, not incurring additional or excessive debt, and keeping balances significantly below the credit limit.

If the bankruptcy has been discharged less than 36 months from the date of application, the Loan Approval Official may make a credit exception if the bankruptcy was due to extenuating circumstances and the applicant has been able to re-establish good credit since the factors leading to the extenuating circumstance were removed. The loan file must include the loan documentation requirements for making a credit exception using extenuating circumstances.

2. Chapter 13 Bankruptcy

A Chapter 13 bankruptcy is a repayment plan that protects individuals from collection action during the plan period, from three to five years, and discharges any unpaid balance at the end of the plan. The repayment amount is determined by the court based on the individual's income. An applicant with a Chapter 13 Bankruptcy reported on the credit profile may be able to qualify for a loan if the following requirements are met:

- Successful completion of the debt restructuring plan. The completion date is the bankruptcy discharge date; and
- Demonstrate willingness to meet obligations when due for the 12 months prior to the date of application. The last 12-month payments made under the bankruptcy restructuring plan may be used to document the applicant's willingness to repay debt. This means that all required payments were made on time and for the amount agreed upon under the plan.

A Chapter 13 bankruptcy is not considered unacceptable credit, and a credit exception is not required, when the aforementioned requirements have been met. However, the applicant must obtain written permission from the Bankruptcy Court to enter into a financial obligation with the Agency.

3. Significant Mortgage Delinquency

A foreclosure is a significant mortgage delinquency. Other significant mortgage delinquencies are deeds-in-lieu of foreclosure, short sales, and mortgage charge-offs. These are significant mortgage delinquency events that, when present in the credit report, drastically increase the risk of a loan and must be carefully considered in the loan risk analysis when reviewing the loan application. For any significant mortgage delinquency transaction, the Loan Originator must confirm that the applicant has been completely released from the previous mortgage liability and is not responsible for any deficiency judgement. The following describes the most common significant mortgage delinquency actions reported to the credit bureaus that are used as an alternative to a formal foreclosure because they reduce the time and cost of repossessing a property and borrowers avoid the public notoriety of a foreclosure:

- **Deed-in-lieu of Foreclosure**. In a "deed-in-lieu of foreclosure" transaction the borrower voluntarily transfers the property rights back to the creditor in an exchange for a mortgage cancellation. These transactions are most common when the property subject to the potential foreclosure has positive equity or if the homeowner meets the requirements for financial hardship relief.
- **Short Sale**. Short sale is a term used to describe a sale where the debt owing against a property combined with the costs associated with the sale exceeds the property's market value. Short sales are also known as pre-foreclosure sales because the lender has not completed the foreclosure process but plans to foreclose if the property is not sold by the homeowner under the terms approved by the lien holders. Depending on the short sale agreement, the applicant may still be responsible for the amount that "fell short" as a result of the short sale transaction. The loan deficiency remaining after the sale is typically forgiven; however, this is not always the case.

- **Mortgage Charge-Off**. A mortgage charge-off is a debt classification used by creditors when they believe a mortgage debt is not collectible. This action does not mean that the debt is no longer valid or that has been forgiven. An applicant with a mortgage charge-off reported on the credit report may still be responsible for the debt.

If the significant mortgage delinquency was due to the applicant's failure to meet financial obligations, the applicant is not eligible for a loan for 36 months from the date the obligation was released. However, if the delinquency was due to extenuating circumstances, the applicant may be eligible for a loan if:

- More than 12 months have elapsed between the date the applicant was released from the mortgage debt and the application date; and,
- The applicant has demonstrated an ability and willingness to meet obligations when due for the 12 months prior to the date of application; and,
- The circumstances leading to the delinquency are properly documented and justified.

Selling a home through a short sale merely because the property value decreased significantly is not an extenuating circumstance.

4. Agency debts that were debt settled within the past 36 months, or are being considered for debt settlement.

C. Resolving Collection Accounts

Paying an outstanding account is not, in itself, justification to say the applicant has demonstrated a willingness to meet obligations. Payment of a collection account could deplete the applicant's cash resources that could be used for reserve or closing costs. The Loan Approval Official may determine it is not necessary to pay a collection account if there is evidence that the account does not affect the Agency's first lien position. If there were extenuating circumstances to the adverse credit, the Loan Approval Official may determine that the late payments are not reflective of the applicant's ability to meet financial obligations or manage debts. All extenuating circumstances must be documented on the Credit History Worksheet.

SECTION 4: OTHER ELIGIBILITY REQUIREMENTS

4.15 OWNING A DWELLING

An applicant who owns a dwelling generally is not eligible for a Section 502 loan, except for refinancing assistance, as described in Paragraph 6.5 B. However, if the applicant's dwelling is structurally unsound, functionally inadequate, or too small to accommodate the needs of the household, funds may be provided to improve the existing dwelling or to purchase a new one.

The following are examples where the Agency can assist an applicant in the purchase of a new home provided they meet all other eligibility criteria and the existing property is properly handled (e.g. sold prior to the Agency's loan closing and the proceeds in excess of the program's asset threshold are used for a down payment; the sale of the home is a loan closing condition and a lien is placed against the property so that any future proceeds in excess of the program's asset threshold are used as a principal reduction; and/or any long term debt obligation is considered in the total debt ratio).

- An applicant lives adjacent to an industrial operation. The business's operations result in vibrations that have caused the foundation of the applicant's home to severely shift causing cracks in the home and an unsafe living condition.
- An applicant lives in a two-story dwelling which is not accessible to a household member with a disability.
- An applicant lives in a manufactured home that is not affixed to a permanent foundation.
- An applicant is dealing with an overcrowded situation now that their family has grown (i.e. there are more than two household members per bedroom).

4.16 ABILITY TO OBTAIN OTHER CREDIT

To be eligible, the applicant must be unable to obtain credit from other sources on terms and conditions they can reasonably be expected to fulfill. Due to limited repayment ability, all very low-income applicants and any applicants qualifying for payment assistance are presumed to be unable to obtain credit from other sources. For other applicants, the Loan Approval Official should determine whether the applicant must provide written documentation from another source that they were unable to obtain credit on reasonable terms and conditions. Factors to consider include, but are not limited to, the amount of payment subsidy the applicant may be eligible for, down payment requirements, or fees and other costs, etc.

Applicants must reduce the need for credit by using available non-retirement assets, as described in Section 2. In addition, applicants should be encouraged to obtain a portion of the needed funds in the form of affordable housing products.

4.17 OCCUPYING THE PROPERTY [7 CFR 3550.53(C)]

To be eligible for a Section 502 loan, applicants must agree to personally occupy the dwelling on a permanent basis. On the basis of this requirement, 2 types of applicants require special review.

Active duty military applicants. Because of the probability of transfer, military personnel on active duty should not receive loans without proof that a discharge will be received within a reasonable period of time, usually within 1 year. A military serviceperson who cannot physically reside in a property because they are on active duty will be considered to meet the occupancy requirements if their family will occupy the home.

Student applicants. Due to the probability of moves after graduation, full-time students cannot obtain loans unless they intend to make the home a permanent residence and there are reasonable prospects of securing employment in the area after graduation.

4.18 LEGAL CAPACITY [7 CFR 3550.53(e)]

To be eligible for a loan, the applicant must be considered an adult under State law, and must have the legal capacity to incur the loan obligation. An applicant with a court-appointed guardian or conservator who is empowered to obligate the applicant in real estate matters is eligible for a loan. The Loan Originator should assume that any applicant has the legal capacity to enter into the loan unless there is evidence to the contrary.

4.19 SUSPENSION OR DEBARMENT [7 CFR 3550.53(f)]

Individuals who have been suspended or debarred from participation in Federal programs are not eligible for Agency assistance.

4.20 CITIZENSHIP STATUS [7 CFR 3550.53(b)]

To be eligible for Agency assistance, the applicant must be a U.S. citizen, a U.S. non-citizen national, or a qualified alien and provide acceptable evidence of eligible immigration status. Any applicant who is not a U.S. citizen, a U.S. non-citizen national, or a qualified alien will be denied assistance. Aliens and alien non-citizen nationals must provide acceptable evidence that they are qualified aliens as listed in Attachment 4-D.

The Rural Development has entered into an "Interagency Agreement" with the Department of Homeland Security, U. S. Customs and Immigration Service (USCIS) to allow access to the Systematic Alien Verification for Entitlements (SAVE) database. This program enables Housing Program staff to obtain online immigration status information to determine a non-citizen applicant's program eligibility. In most cases, SAVE will provide immediate responses concerning the immigration status of an applicant.

4.21 TRUTHFUL APPLICATION

Applicants must provide truthful information when applying for assistance. Any inconsistencies discovered throughout the application process must be addressed. The Loan Originator must obtain sufficient documentation to verify the applicant's identity.

Documentation will include picture identification (ID), evidence of age, and evidence of the taxpayer's identification number for each person that will sign the promissory note. A photocopy of these documents shall be placed in the case file. Acceptable forms of identification include a driver's license, passport, work related ID cards, or similar documents. If photographic ID is not available, the Loan Originator must thoroughly document why it is not available and how identity of the applicant was verified. In addition, if the applicant's taxpayer identification number is not included on the picture ID, another means of documentation is required to verify the taxpayer's identification number such as a copy of the social security card, a pay stub, or a bank statement. Applicants who provide false information, or who fail to disclose relevant information, will be denied program assistance.

If Form RD 410-4, Uniform Residential Loan Application, indicates the applicant is a U.S. citizen, no additional due diligence is generally required unless there is a reason to believe the applicant is not a U.S. citizen, such as a Social Security card that reads "work only". **Always** require evidence if Form RD 410-4 indicates that the applicant is a qualified alien.

Non-citizen nationals are persons born in American Samoa or Swains Island or after the date the U.S. acquired American Samoa or Swains Island, or a person whose parents are U.S. non- citizen nationals. **Always** require evidence of this relatively uncommon status.

SECTION 5: PROCESSING THE CERTIFICATE OF ELIGIBILITY

4.22 DETERMINING REPAYMENT ABILITY [7 CFR3550.53(g)]

The primary consideration in determining whether an applicant can afford to purchase a home is the applicant's repayment income. Repayment income, as described in Paragraph 4.4 H., is the amount of income parties to the note will have available to repay the debt.

However, other household expenses and debts and the availability of payment subsidies also greatly affect an applicant's repayment ability. The Agency bases underwriting decisions on an analysis of the percentage of income the applicant would be required to spend on housing costs and the applicant's Total Debt (TD) if the loan is approved. Using these 2 percentages, called ratios, is a standard practice throughout the lending industry. Borrowers must meet the Agency's standards for both ratios.

Maximum Ratios	
PITI Ratio	
Very low-income applicants	29%
Other applicants	33%
TD Ratio (all applicants)	41%

A. The PITI Ratio

The PITI ratio compares the amount the applicant must spend on housing costs (including **P**rincipal on the loan, **I**nterest on the loan, real estate **T**axes, and property **I**nsurance) and flood Insurance (as applicable) to the applicant's repayment income. The leveraged loan payment is included in PITI.

Example - Calculating PITI Ratios

$360	Principal and Interest payments
$ 50	Taxes
$ 10	Flood Insurance
$ 50	Insurance
$470	Total for PITI
$18,000	Annual Repayment Income
$ 1,500	Monthly Repayment Income ($18,000 ÷ 12)

PITI Ratio = $470 ÷ $1,500 = 31.33%

Taxes: Must be on full assessed value

For new construction, the fully assessed tax amount will be used to determine repayment ability. Very low-income applicants are considered to have repayment ability if they do not have to pay more than 29 percent of Repayment income for PITI expenses. Applicants with incomes above the very low-income limit are considered to have repayment ability if they do not have to pay more than 33 percent of repayment income for PITI expenses.

B. The TD Ratio

1. Maximum TD Ratio

The TD ratio compares the applicant's total debt to repayment income. Applicants, regardless of income, are considered to have repayment ability when they do not have to spend more than 41 percent of repayment income on total debt.

2. Establishing TD

Total debt includes PITI, all long-term obligations, and short term-obligations that have a significant impact on repayment ability. The following items should be counted:

- PITI -- Principal, Interest, Taxes, and Insurance (including leverage loan payments).
- Regular assessments, such as homeowner association or condominium assessments.
- Long-term installment obligations with more than 6 months repayment remaining, including loans, alimony, and child support but excluding revolving accounts. Funds borrowed from a retirement account are excluded since the applicant is repaying a loan to themselves. In the event an applicant does not repay the loan as agreed, the debt is reported as taxable income during that tax year, but will be treated as sporadic income.
- Payments that come due in the next 12 months.
- Deferred debt regardless of the length of the deferment period. If the credit report does not reflect the anticipated monthly payment due at the end of deferment, the Loan Originator should obtain verification of the monthly payment directly from the creditor or request a copy of the loan agreement from the applicant.

- Student loan payments. The Loan Originator must use the actual monthly payment under the existing repayment plan (as verified by the lender) if (1) the loan is in repayment status, (2) the applicant has a credit score of 640 or higher,
  (3) the applicant has no significant delinquency as outlined in Paragraph 4.14 B., and (4) the applicant's payment shock can be measured and is not more than 100%. If all four conditions are met and the applicant who is responsible for the student loan has, for example, a $0 monthly payment because they are on an income-driven repayment plan, there will be no student loan payment considered in the TD ratio. The State Office may grant a case-by-case waiver to any condition if the overall risk assessment on the application warrants it and is well documented in the casefile. When the above does not apply (e.g. because the loan is in deferment or forbearance), the higher of the monthly student loan payment listed on the credit report or one-half percent (.50%) of the student loan balance must be used in the TD ratio.

- Short-term obligations that are considered to have a significant impact on repayment ability, such as large medical bills and car or other credit payments.

- The minimum monthly payment required for revolving credit card debts using the following applicable approach: 1) Use $0 if the credit report indicates no outstanding balance. 2) Use the minimum monthly payment as reflected on the credit report if the credit report indicates an outstanding balance and a minimum monthly payment. 3) Use 5 percent of the outstanding balance if the credit report indicates an outstanding balance but no specific minimum monthly payment or obtain a copy of the most recent billing statement that reflects the actual monthly payment and use that amount if lower. 4) If the credit report indicates an outstanding balance but the applicant indicates that it will be (or has been) paid in full, a monthly payment will not be used provided the Loan Originator obtains documentation of payment in full.

- Debt from which the applicant has not been released need not be counted if the applicant can demonstrate that another party has assumed responsibility for the debt. For example, if a divorced applicant can show that the former spouse has made the last 12 months of mortgage payments, the mortgage payments on that property need not be counted when establishing total debt.

Example - Calculating TD Ratios

$300	Principal and Interest payments
$ 60	Taxes
$ 50	Insurance
$410	PITI Subtotal
$300	Car payment
$100	Payments on credit card debt
$810	Total Debt
$25,000	Annual Repayment Income
$ 2,083	Monthly Repayment Income ($25,000 ÷ 12)

TD Ratio = $810 ÷ $2,083 = 38.89%

- Contingent liabilities. If the applicant is a cosigner on a loan or any other obligation, the debt must be included in the TD ratio. The Loan Originator should never omit a credit report liability with a balance greater than zero from the loan application unless strong supporting documentation is provided to evidence that the primary signer has been making on time payments during the previous 12 months.

- If the applicant recently obtained additional credit, verify the terms of the new obligation and include the monthly payment in the total debt ratio.

C. Determining the Maximum Loan Amount

The Loan Originator enters information provided by the applicant about household size, income and debts, and general program information, including the Maximum loan limit and median income for the area. Because a specific dwelling has not yet been identified, estimates can be used for taxes, insurance, and purchase-related costs. Once this information is entered, UniFi:

- Computes the PITI and TD ratios;

- Determines whether the applicant is eligible for payment subsidy, and how much payment subsidy the applicant would receive; and

- Computes the maximum loan amount for which the applicant qualifies, first using standard loan terms and then using any adjusted terms for which the applicant may qualify. Once a property is identified, if the adjusted term is not necessary than the loan should be closed using the standard loan term.

- The Loan Originator will print out and sign the estimated UniFi Eligibility Summary and place it in position 3 of the applicant case file.

D. Using Market Data to Interpret UniFi Results

Each Field Office should collect and maintain sales information for each market area in its jurisdiction. By comparing the results of an applicant's maximum loan calculation to market data, Loan Originators can provide appropriate counseling for applicants and identify candidates for 100 percent private financing or leveraged loans. MLS and comparable sales data collected through appraisals are valuable sources of market information.

4.23 RESERVED

4.24 OTHER CONSIDERATIONS RELATED TO MAXIMUM LOAN AMOUNTS

The maximum loan amount that the applicant qualifies for as shown on the Eligibility Summary generated from UniFi may be too low to enable the applicant to purchase a property that meets program standards. Exhibit 4-6 outlines the procedure on how to handle this situation. Conversely, the maximum loan amount and the resulting payment may be too high; setting the stage for payment shock.

This paragraph provides guidance on additional financial resources and compensating factors that the Loan Originator should consider to improve the applicant's purchasing ability only and concludes with a discussion on payment shock.

Exhibit 4-6

Establishing an Area's Minimum Loan Amount

Each Field Office should set, following the methodology provided by their State Office, a minimum loan amount in each area that is "clearly less than" the amount needed to purchase a decent, safe, and sanitary dwelling in that area. For example, if a county's area loan limit is
$140,000, but based on an examination of properties financed by the Agency in that county during the last 12 months shows that the lowest amount of financing needed to purchase a decent, safe, and sanitary home was $75,000, a minimum loan amount of $60,000 may be set. Consideration should be made for properties with a purchase price below the minimum loan amount parameters when, if repaired (using loan funds or other means), would provide a decent, safe, and sanitary dwelling.

If the applicant does not qualify for the minimum loan amount and the Loan Originator has concluded that compensating factors are not applicable and adding a party to the application is not viable, Handbook Letter 15 (3550), Standardized Adverse Decision Letter, should be sent to the applicant along with Attachment 1-B. The letter should state that the applicant's qualifying loan amount (be sure to enter that amount) is not sufficient to meet the program's purpose as outlined in the 7 CFR Part 3550, Paragraph 3550.2

A. Using Compensating Factors

Exceptions to the standard method of determining repayment ability may be made if there is information -- called compensating factors -- that indicates the prospective borrower may be able to make larger regular loan payments than the ratio analysis suggests. Compensating factors must be clearly documented in the applicant's case file.

All compensating factors must be approved by the next level supervisor. To obtain approval, the Loan Originator must prepare a written request that supports the use of compensating factors and the higher amount requested. The Loan Originator should forward the request and case file to the next level supervisor for approval.

Some of the compensating factors that can affect the amount of debt an applicant is permitted to have are discussed below:

1. Payment History

The PITI and TD ratio analyses assume that households are able to contribute a specified percentage of income toward housing costs. However, if an applicant has historically paid a greater share of income for housing with the same income and debt level, a higher payment may be approved. Utility and maintenance costs must be considered as part of this analysis.

1. Savings History

Applicants with accumulated savings and a savings history that shows a capacity to set aside a larger-than- average portion of income may be approved for a higher payment.

2. Job Prospects

If an applicant has recently entered a profession in which they can expect significant pay increases, the Loan Originator may base repayment income on the anticipated future earnings of that applicant.

Example - Using Savings History As A Compensating Factor

An applicant is currently paying $400 per month in rent and putting $175 per month in a savings account. Utility costs should be similar to those the applicant is currently paying, but maintenance costs will be about $50 per month higher. According to ratios, the applicant's repayment ability is $500 per month. However, since the applicant is currently using a total of $575 per month for a combination of rent and savings, a loan that requires a monthly payment of up to $525 ($575-$50) may be considered.

Similarly, if overtime income is available to increase the applicant's income, the Loan Originator may project the household's income with extra overtime included.

3. Homes Constructed Under Specific Energy Efficiency Programs

A new home built to exceed the prevailing International Energy Conservation Code is more energy efficient, which significantly lowers the homeowner's utility costs. The lower utility costs associated with these energy efficient homes indicate that a prospective borrower may be able to make larger loan payments than the ratio analysis suggests.

Given their resulting energy efficiency savings of up to 30 percent relative to typical new homes, as well as their progressive and routinely updated building standards, new homes constructed under the following national programs may be considered as a compensating factor (when approved by the next level supervisor):

- Energy Star for New Homes under the U.S. Environmental Protection Agency (https://www.energystar.gov/index.cfm?c=new_homes.hm_index)
- Zero Energy Ready Home under the U.S. Department of Energy (http://energy.gov/eere/buildings/zero-energy-ready-home)
- Leadership in Energy and Environmental Design (LEED) for Homes under the U.S. Green Building Council (http://www.usgbc.org/leed/rating-systems/residential)
- Home Innovation's "National Green Building Standard" under the National Association of Home Builders (http://www.nahb.org/en/research/nahb-priorities/green-building-remodeling-and-development/icc-700-national-green-building-standard.aspx)

- Green Communities under the Enterprise Community Partners (http://www.enterprisecommunity.com/solutions-and-innovation/enterprise-green-communities)
- Passive House under the Passive House Institute US (http://www.phius.org/home-page)
- Living Building Challenge under Insurance Institute for Business and Home Safety (http://living-future.org/lbc)

When a new home to be constructed under a specific energy efficiency program will be used as a compensating factor, the qualifying ratios may exceed the established thresholds by up to two percentage points provided the Field Office obtains reasonable documentation that the property will be built to certification standards through one of the above programs. Once construction is complete, the Field Office must obtain verification that the property is certified through one of the above programs.

B. Adding Additional Parties or Cosigners to the Note

Additional financial resources may be added by adding additional parties to the note or locating cosigners.

1. Additional Parties to the Note

Additional parties to the note must agree to occupy the dwelling and must qualify as borrowers, as described in this chapter. Counting the income of the additional parties increases repayment income.

2. Cosigners

Individuals who will not reside in the dwelling, but who are willing to be responsible for the debt may be consigners to the note. To supplement the applicant's purchasing power, a cosigner must demonstrate an ability and willingness to meet debt obligations as outlined in Section 3 and possess a TD ratio that does not exceed 41 percent. The cosigner's TD calculation would include the applicant's full note payment through Rural Development, the applicant's leveraged loan payments (if applicable), the applicant's escrow payment, and all of the cosigner's long-term obligations (including their mortgage) as well as their short-term obligations that have a significant impact on repayment ability.

Again, cosigners can only be used to improve the applicant's purchasing power. Cosigners cannot be used to compensate for an applicant's unacceptable credit history

C. Payment Shock

Payment shock represents the applicant's projected increase in housing expenses. The following formula is used to calculate payment shock as a percentage:

Payment shock = (Total proposed principal, interest, taxes, and insurance payment after subsidy / current housing expense excluding utilities) – 1

By way of example, presume that the Rural Development payment after subsidy is $550, the leveraged lender's payment is $250, taxes and insurance are approximately $120, and the applicant's current rent is $400. In this scenario, the applicant's payment shock is 130 percent:

($550 + 250 + 120) / 400 = 2.30; 2.30 – 1 = 1.30 = 130 percent

In cases where payment shock is greater than 100 percent or could not be measured since the applicant does not currently have any housing expenses, no additional risk layering (i.e. adverse credit waivers, use of compensating factors, etc.) should be allowed without strong justification. Multiple layers of risk may be justified if the applicant has an excellent credit history reflecting timely repayment of credit obligations or a credit score of 640 or higher on their TMCR. Perhaps the applicant has demonstrated a careful attitude toward the use of credit and an ability to accumulate savings or a stable employment history over the past two years, demonstrating a dependable income stream. Regardless of the justification, the Loan Approval Official must thoroughly document their rationale for allowing multiple layers of risk in the running case record.

In addition, the Loan Approval Official must counsel the applicant on this occurrence and emphasize that purchasing a home at their maximum qualification amount may strain their budget and not allow for unexpected expenses. Discuss the additional costs associated with homeownership (taxes, insurance, utilities, maintenance, etc.) and document the counseling effort in the running case record.

4.25 ISSUING THE CERTIFICATE OF ELIGIBILITY

If the Loan Originator determines that an applicant is eligible for a loan, the decision will be documented in the form of a written narrative in the running record of the applicant case file.

Paragraph 4.25 Issuing The Certificate Of Eligibility

When funds are available, eligible applicants who have not yet located properties or, who own their building site but have not provided a construction package, should be issued Form RD 1944-59, Certificate of Eligibility. First-time homebuyers must be informed that by accepting a Certificate of Eligibility they agree to provide documentation of completion of an approved homeownership education course prior to entering into a contract to purchase or construct a home for maximum benefit (or shortly thereafter). The Loan Originator must note on the running record that they informed the Applicant of the homeownership education requirement. Applicants who are not seeking leveraged loans should be informed that the certificate is valid for a period of 45 days. Applicants seeking leveraged loans should be informed that the certificate is valid for a period of 60 days. Within that time the applicant must provide sufficient information to enable the Agency to conduct an appraisal of the property to be financed. COE will be honored even if loan limits change before the expiration of the commitment. Up to two 30 day extensions may be granted for applicants who demonstrate that they have been actively looking for a property. Area loan limits changes must be considered on any COE extension and the applicant needs to be checked against the DNP portal. If the applicant has already submitted a contract for a property, Form RD 1944-59 will not be issued. If an applicant's sales contract falls through, a new Form RD 1944-59, good for 45 days or 60 days, as applicable, should be issued. An application is no longer considered active and will be withdrawn when the certificate of eligibility has expired and all authorized extensions have been exhausted.

Applicants for a self-help loan will be issued Handbook Letter 16 (3550), Eligibility of Self-Help Applicants. UniFi may indicate the applicant qualifies for a higher loan amount than the actual cost of building a modest home using the self-help method. The dollar amount to be inserted in the eligibility letter will be based on the following:

A. The average cost of the most recent group of homes built in the area by the self-help method with consideration given to known price increases or decreases in materials, labor, land and/or time of construction (unless the applicant qualifies for less); or

B. The average cost of the homes that are to be built by the self-help method as determined by detailed cost estimates of the plans and specifications prepared by the self-help grant organization, in consultation with the local Rural Development staff and/or Technical and Management Assistant (T&MA) contractor. Consideration will also be given to known price increases or decreases in material, labor and/or time of construction (unless the applicant qualifies for less).

If the Loan Originator determines that a loan applicant cannot be determined eligible, Handbook Letter 15 (3550), Standardized Adverse Decision Letter, should be sent to the applicant. The form explains why the loan is not approvable. The appropriate attachment from Chapter 1 should be attached to provide the applicable review, mediation, and appeal rights.

4.26 APPLICANT ORIENTATION

Applicants should be well-informed of Agency requirements and borrower responsibilities. After an applicant is determined eligible, the Loan Originator should provide them with Form RD 3550-23, Applicant Orientation Guide. The Loan Originator should instruct the applicant to watch the Agency's Applicant Orientation Guide video on YouTube and sign and return Form RD 3550-23 within 15 days.

ATTACHMENT 4-A
WORKSHEET FOR COMPUTING INCOME

To access the worksheet and a tutorial on the worksheet, visit the Forms & Resources page for the Single Family Housing Direct Home Loans.

ATTACHMENT 4-B

[RESERVED]

ATTACHMENT 4-C

REVIEWING A SELF-EMPLOYED APPLICANT'S INCOME AND DEBT LOAD

The purpose of this attachment is to provide guidance on how to properly analyze a self-employed applicant's income.

An applicant who has a 25% or greater ownership interest in a business is considered "self-employed" and a cash flow analysis of the applicant's income is required. The legal structure of a business determines the way business income or loss is reported to the IRS. Loan Originators must understand the applicant's business structure to effectively document, calculate, and analyze annual and repayment income.

Step 1: Understand the Business Structures

The legal structure of a business determines the way business income or loss is reported to the IRS. Loan Originators must understand the applicant's business structure to effectively document, calculate, and analyze annual and repayment income. The following are the most common business structures for self-employed applicants.

a. Sole Proprietorship: The business structure most often encountered is a sole proprietorship (be it a business, farming, or profession). A sole proprietor is someone who owns an unincorporated business by himself or herself and has unlimited personal liability for all debts of the business. Business income or loss is folded into the individual owner's tax return.

b. Partnership: A partnership is an arrangement between two or more individuals who have put together their assets and/or skills to operate a business and who will share, as stated in the agreement, profit and losses.

c. Limited Liability Corporation (LLC): A LLC is a legal business structure designed to offer its members (owners) the tax efficiencies of a partnership and the limited liability advantages of a corporation. Although the member-owners generally have limited liability, there may be some instances in which they are required to personally guarantee some of the loans that the limited liability corporation obtains.

d. S-Corporation: An S Corp is a legal entity that has a limited number of stockholders (up to 75) and elects not to be taxed as a regular corporation. The small business gains and losses are passed on to the stockholders in proportion to each stockholder's percentage of business ownership and it is taxed at their individual tax rates. This is another commonly encountered type of business.

Step 2: Document Self-Employment Income:
Since self-employment income reporting may vary depending on the business structure, and can be quite complex, the Loan Originator must obtain a complete copy of the individual and business tax returns. A self-employed applicant must submit signed copies of his/her **last two** complete IRS Form 1040, U.S. Individual Income Tax Returns (IRS Form 1040) with IRS Form W-2 attached, if the applicant also has wage income, along with the appropriate IRS forms and schedules as noted in the table below. If the business is a corporation, S corporation or partnership, a complete, signed copy of the business income tax return for the last 2 years, with all applicable schedules, is also required. For electronically filed tax returns, it is not necessary to require the applicant(s) to manually sign the return for application purposes if there is sufficient documentation the applicant has signed the return electronically (i.e. use of Self-Select PIN for Free File Fillable Forms, Electronic Filing PIN, or authorized E-File Provider). The following table provides general guidance regarding the minimum documentation required for self-employed applicants. (Please note that the place the information is found is based on a tax return from a certain year and may be different)

Form of Business or Commission Income	**Individual Profit & Loss will be reported in…**	**Business Profit or Loss will be reported in…**
Sole Proprietorship	Form 1040, Line 12: Business Income or (loss) Schedule C (Form 1040), Profit or Loss from Business	Form 1040, Schedule C: Profit or Loss from Business
Partnerships and Limited Liability Corporations	Form 1040, Line 17: Rental real estate, royalties, partnerships, S corporations, trusts, etc. Schedule E (Form 1040), Supplemental Income and Loss	IRS Form 1065, U.S. Partnership Return of Income Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc.
S Corporations	Form 1040, Line 17: Rental real estate, royalties, partnerships, S corporations, trusts, etc. Schedule E (Form 1040), Supplemental Income and Loss	IRS Form 1120S, U.S. Income Tax Return for an "S" Corporation (IRS Form 1120S) Schedule K-1 (Form 1120S), Shareholder's Share of Income, Deductions, Credits, etc.

The applicant must also submit current documentation of income and expenses using the verification of business expenses form located in Appendix 2. If the applicant cannot provide copies of the actual returns filed, they can directly request, obtain, and provide a copy of their tax return transcripts (using IRS Form 4506-T, Request for Transcript of Tax Return).

If an applicant has been self-employed between one and two years, the applicant must demonstrate and the Loan Originator must document two years of previous successful employment in a similar line of work. The applicant's individual tax returns must reflect a history of receiving income at the same (or greater) level in a field that provides the same products or services as the current business.

The income for an applicant that has been self-employed for less than one year is not to be considered stable for repayment purposes.

Step 3: Calculate Self-Employment Income:

Individuals and businesses complete tax forms to calculate taxable income or loss. Tax forms by themselves do not tell lenders how much qualifying income an applicant has for a mortgage. To calculate self-employment income, it is necessary to make a cash flow analysis of the applicant's income.

The Loan Originator needs to make certain adjustments to the income (or loss) reported in IRS Form 1040 in order to have an accurate picture of the applicant's cash flow. The IRS allows self-employed applicants and business owners to make non-cash deductions to reduce taxable income. Depreciation is the classic example of how a non-cash deduction reduces taxable income but increases the applicant's income for loan qualification purposes. The Loan Originator must carefully review all tax forms to identify non-cash deductions (increasing income) and/or additional expenses (reducing income). The following are the most common adjustments to the net profit/income reported in the applicable tax forms/schedules:

Add Back	Subtract
Depreciation	Employee Business Expenses
Depletion	Meals and Entertainment Exclusion
Nonrecurring Losses	Nonrecurring income (generally reported as "Other Income"
Amortization / Causality Loss (if non recurring)	Nonrecurring Capital Loss
Recurring Capital Gains	

Step 4: Analyze the Self-Employment Income:

When analyzing self-employment income the Loan Originator must perform a detailed review of the applicant's individual and business tax returns to confirm that the income is stable and dependable (likely to continue).

In general, income from self-employment is considered stable if the applicant has been self-employed for two or more years. Because self-employment income may change each year, the Loan Originator should always develop an average monthly income by using at least two full years of the applicant's self-employment income. An average takes in consideration typical market fluctuations, thus better predicting the applicant's long-term earning ability.

Dependable income refers to the likelihood of continuity of the income. Making this determination requires the Loan Originator to predict future income. The Loan Originator should look at income trends and the stability of the income source. Any specific indication of an upcoming event that might change the applicant's employment or income should be addressed in the loan file and considered in the underwriting decision. For example, if the most recent tax return shows an income considerable higher than reported in the previous tax year, the Loan Originator should investigate further to determine whether the higher income is due to business expansion or a onetime event unlikely to reoccur and continue. Income from a nonrecurring transaction should be excluded from the income calculations. Similarly, a nonrecurring loss should not be deducted from the income calculation.

Other Types of Income Needing a Cash Flow Analysis:

Special Attention to Commission / Contract Income and Other Business Expenses

An applicant that receives 25% or more of the annual income in commission, bonuses or tips most likely engages in business activities needing a cash flow analysis. This income may be reported in the IRS Form W-2 or IRS Form 1099 (e.g. real estate agents/contract employees). Non-reimbursed business expenses reported in IRS Form 2106, Employee Business Expenses, should be deducted from the income reported on the applicant's tax return.

Commission, bonuses and, tips income may be considered stable if the applicant has received this income for the past two years. After making the cash flow analysis, the Loan Originator should develop a two year average to make an income determination.

Summary

Income from self-employment may be unpredictable, subject to market/economic fluctuations. Due to the inherent risk of self-employment income, the Loan Originator must consider internal and external economic factors when analyzing self-employment income.

When an applicant is self-employed, or has income needing a cash flow analysis, do not use the total income reported on IRS Form 1040, IRS Form W-2, or IRS Form 1099. Instead, analyze each income line item individually and make the necessary adjustments to the total income/profit. If the Loan Originator fails to perform a detailed review and analysis of the borrower's tax return both annual and repayment incomes will be miscalculated.

ATTACHMENT 4-D

REVIEWING DOCUMENTATION FOR CITIZENSHIP STATUS

The purpose of this attachment is to provide guidance on acceptable evidence that a non-U.S. citizen is a qualified alien and to provide guidance on the use of the Systematic Alien Verification for Entitlements (SAVE) database maintained by the Department of Homeland Security (DHS).

A "qualified alien" is defined under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) (8 U.S.C. Section 1641) as:

1) An alien who is lawfully admitted for permanent residence under the Immigration and Nationality Act;
2) An alien who is granted asylum under Section 208 of such Act;
3) A refugee who is admitted to the United States under Section 207 of such Act;
4) An alien who is paroled into the United States under Section 212(d)(5) of such Act for a period of at least 1 year;
5) An alien whose deportation is being withheld under Section 243(h) of such Act; or
6) An alien who is granted conditional entry pursuant to Section 203(a)(7) of such Act as in effect prior to April 1, 1980;
7) An alien who is a Cuban/Haitian Entrant as defined by Section 501(e) of the Refugee Education Assistance Act of 1980; or
8) An alien who has been battered or subjected to extreme cruelty under Section 431 of the Immigration and Nationality Act (INA).

Native Americans covered by the Jay Treaty of 1794 and born in Canada may also be eligible as lawfully admitted for permanent residence if they meet the requirements of 8 U.S.C. Section 1359. Since the Agency might not be able to verify their status through SAVE, the Native American should provide **all** of the documentation listed below.

- A letter from their Native American tribe stating that the alien has at least 50 percent Native American or Aboriginal blood (also referred to as the blood quantum);
- Their Canadian "Certificate of Indian Status Card" with a red stripe along the top;
- Their birth certificate;
- If an Haudenosaunee, their Red I.D. Card;
- If an Inuit, an Inuit enrollment card from one of the regional Inuit lands claim agreements;
- Their Social Security Card issued by the U.S. Social Security Administration; and
- Their Canadian or U.S. driver license.

SAVE System Access:

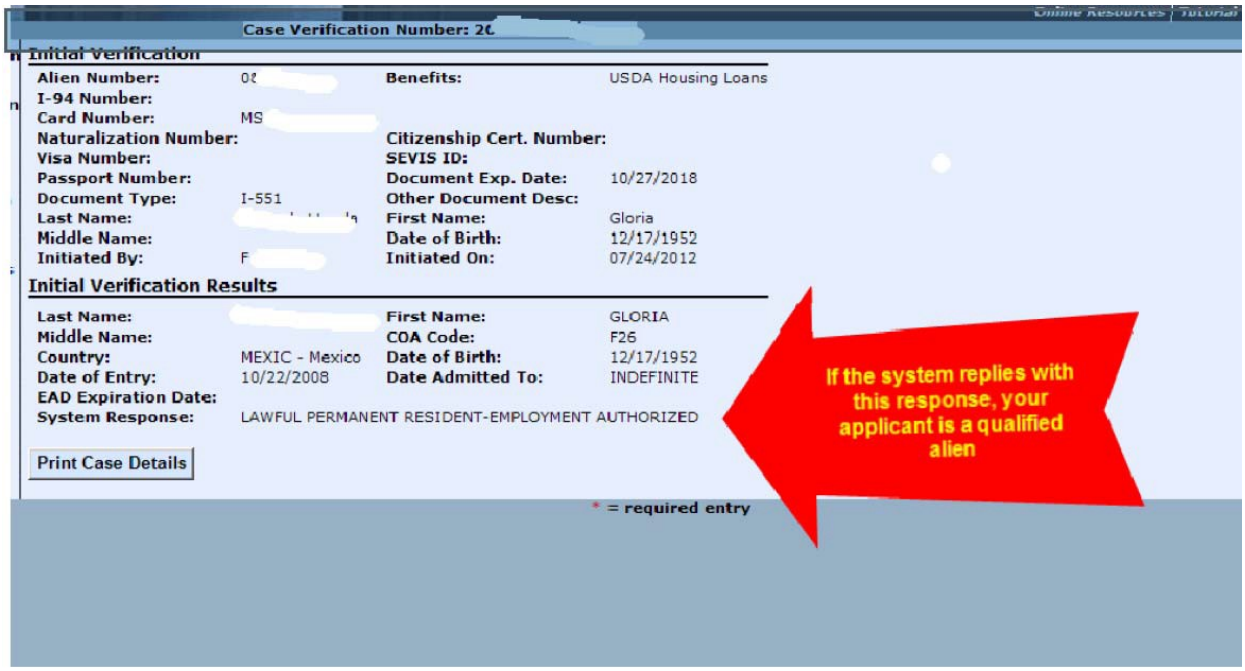
Rural Development has entered into an "Interagency Agreement" with DHS's United States Citizenship and Immigration Service (USCIS) to allow access to the SAVE database. This database enables staff to obtain immigration status information to assist in determining a non-citizen applicant's program eligibility. In most cases, SAVE will provide an immediate response concerning the immigration status of an applicant.

The Loan Originator must secure proof of identity and evidence that non-citizens who apply for program assistance are qualified aliens. In all cases, non-citizens legally admitted into the United States will have an Alien Identification Number. In cases where a number is not available or known, the applicant should contact the USCIS. (There are cases where an alien has been legally in the U.S. for a period of time and DHS has supplied them with a number, but the alien did not receive or has misplaced the number.) The Loan Originator should obtain the non-citizen's Alien Identification Number and submit it to SAVE to obtain the applicant's eligibility status based on the alien's Class of Admission (COA).

Each State Office should have one person that administers accesses to SAVE. This person will have "supervisor" access which enables them to establish other SAVE supervisors and users within their state. Before requesting a verification, new users should complete the SAVE tutorial available through the site.

After logging into the system, the Loan Originator will enter the applicant's Alien Identification Number (9 digits) into the "Alien Number" field, select the program for which the alien is seeking a benefit, and submit the information for processing. **NOTE: Only enter the Alien Identification Number into SAVE**. Social Security numbers, driver's license numbers, or any other number other than an Alien Identification Number **will not** yield a valid result.

The system will normally respond within seconds with the applicant's eligibility and a COA code. In most cases SAVE will give a "System Response" indicating the alien's status.



The applicant is eligible for program assistance if the response is “LAWFUL PERMANENT RESIDENT – EMPLOYMENT AUTHORIZED”. Other acceptable responses include, but are not limited to “ASYLEE”, “PAROLEE”, “REFUGEE”, and “USC” (UNITED STATES CITIZEN).

The applicant is not eligible for program assistance if the response is “TEMPORARY RESIDENT – TEMPORARY EMPLOYMENT AUTHORIZED”.

If the response is “INSTITUTE ADDITIONAL VERIFICATION”, the system was unable to determine the alien’s status.

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Case Verification Number: 1

Initial Verification

Alien Number:		Benefits:	USDA Housing Loans USDA Housing Grants USDA Loan Guarantees
I-94 Number:			
Card Number:			
Naturalization Number:		Citizenship Cert. Number:	
Visa Number:		SEVIS ID:	
Passport Number:		Document Exp. Date:	07/07/2012
Country of Issuance:			
Document Type:	I-766	Other Document Desc:	
Last Name:		First Name:	
Middle Name:		Date of Birth:	
Initiated By:	5	Initiated On:	2

Initial Verification Results

Last Name:		First Name:	
Middle Name:		COA Code:	
Country:		Date of Birth:	
Date of Entry:		Date Admitted To:	
EAD Expiration Date:			
System Response:	INSTITUTE ADDITIONAL VERIFICATION		

Additional Verification

SAVE is asking the Agency user to supply additional information for a second step process. Agency staff should click on the "Request Additional Verification" button, follow the instructions, and reply via the SAVE site within three to five days. Agency staff must return to their case verification screen to view the system response. In the event that SAVE is unable to determine a COA code, the system will respond "submit copies of documentation".

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Case Verification Number: 2C_ L

Initial Verification

Alien Number:	C	Benefits:	USDA Housing Loans USDA Housing Grants USDA Loan Guarantees
I-94 Number:			
Card Number:			
Naturalization Number:		Citizenship Cert. Number:	
Visa Number:		SEVIS ID:	
Passport Number:		Document Exp. Date:	07/01/2012
Country of Issuance:			
Document Type:	I-766	Other Document Desc:	
Last Name:		First Name:	
Middle Name:		Date of Birth:	
Initiated By:		Initiated On:	12/21/2012

Initial Verification Results

Last Name:		First Name:	
Middle Name:		COA Code:	
Country:		Date of Birth:	
Date of Entry:		Date Admitted To:	
EAD Expiration Date:			
System Response:	INSTITUTE ADDITIONAL VERIFICATION		

Additional Verification

User Case Number:		A.K.A.:	
I-94 Number:			
Passport Number:		Country of Issuance:	
Special Comments:			
Initiated By:		Initiated On:	12/21/2012

Additional Verification Results

DHS Response:	Resubmit Doc (Need copy original)	Expires On:	
COA Code:		Date Admitted To:	
USCIS Benefits:		Response Date:	12/26/2012
Revocation Date:			

If this is the case, the Agency staff will complete the CIS Form 845 (prefilled by SAVE) from the verification screen and electronically submit the form and scanned copies of all immigration documentation (front and back) provided by the applicant. The USCIS personnel have three to five business days from receipt of the documents to reply. The reply will be via the case verification screen in the SAVE program so Agency staff must return and check for the reply.

CHAPTER 5: PROPERTY REQUIREMENTS

5.1 INTRODUCTION

Ensuring that the quality and the value of the property meet certain minimum thresholds is as important as ensuring that the applicant is willing and able to repay a loan. The Agency imposes quality and value requirements to protect the borrower's interest and, in the event of liquidation, the Agency's interest.

A. Overview of Property Requirements

1. Ensuring Quality

Four sections of this chapter deal with quality assurance. Section 1 describes the requirements for approving a site -- its location, its size and amenities, and the adequacy of available utility systems. Section 2 describes requirements for the dwelling itself, which must be modest, but also decent, safe, and sanitary. The standards that apply differ somewhat depending upon whether the dwelling will be newly constructed or is an existing home. Section 3 describes the Agency's requirements for the protection of environmental resources and the due diligence required with regard to hazardous substances. Section 6 provides guidance for monitoring construction activities to ensure that any construction or repair work is appropriately conducted and completed.

2. Ensuring Adequate Value

Before the Agency makes a loan, the Loan Originator must ensure that the applicant will have an appropriate form of ownership and that the Agency's interest in the property is adequately secured by the value of the real estate and the Agency's lien position. Section 4 specifies Agency security requirements and Section 5 provides guidance on conducting appraisals of the property's value.

B. Key Processing Steps Related to Property Requirements

When applicants locate properties, they must provide the Loan Originator with the basic information needed to initiate the Agency's review of the property. Applicants who do not currently own the property must submit an option or sales contract. Applicants who already own the property must submit evidence of ownership, a legal description, and a property survey showing all structures on the site. Within 3 business days of the applicant identifying the property, the Loan Originator must send the applicant the items listed in Paragraph 3.8 A.

The Loan Originator will use the USDA Address Verification website (https://eligibility.sc.egov.usda.gov/eligibility/addressVerification) to verify the property address. If the resulting code is 1 or 2, the Loan Originator should enter the address as indicated into UniFi. If

the resulting code is not 1 or 2, the Loan Originator must verify the address with the appropriate local entities (such as the local post office or the local tax/property recording office), document how a reliable address for the property was established in the running record, enter that address into UniFi, re-verify the address using the address website prior to closing and update the address in UniFi if appropriate.

1. Appraisal

In general, appraisals are ordered under the nationwide contract with Appraisal Management Companies (AMCs). Field Staff request an appraisal through the Procurement Management Office's (PMO) Procurement Requests SharePoint site using the current SFH Appraisal Request form (which can be found in the Direct Training Hub in SharePoint along with other appraisal training materials) and uploads all applicable supporting documents. The AMC Administration Team (consisting of PMO and National Office staff) then orders the appraisal through the applicable AMC portal.

Under the nationwide contract, the AMCs are generally required to follow Attachment 5-A (though contract terms may differ). The AMC Administration Team monitors the AMCs' contract performance, reconciles invoices, handles payments, and handles all communications with the AMCs. Field Staff are not to communicate with the AMCs or their subcontracted appraisers; Field Staff must direct their appraisal communications to rd.appraisals@usda.gov. If the communication is time sensitive (e.g. request for a correction or revision), use "Urgent" in the subject line.

2. Review of Property and Site for Compliance with Agency Standards

Before loan approval, the Loan Originator must confirm that the property meets, or will meet with any planned constructions or repairs, all applicable Agency requirements. This is accomplished through a review of opinions or determinations made by qualified third parties (such as appraisers, local building officials, architectural and engineering professionals, and trades professionals).

3. Identification and Correction of Deficiencies

If at any point during the review process, deficiencies are identified that jeopardize the Agency's ability to approve a loan, the Loan Originator must notify the applicant and give the applicant at least 15 days to resolve the deficiency. For example, if an inspection reveals a structural deficiency that can be corrected, the applicant could negotiate with the seller to reduce the sales price so that funds to correct the deficiency could be included in the loan, or to correct the deficiency before the property is transferred.

If a deficiency cannot be satisfactorily corrected, the Loan Originator notifies the applicant and provides a new Form RD 1944-59, Certificate of Eligibility, which is signed by the Loan Approval Official.

4. Documenting the Acceptability of Seller Completed Repairs

As part of the contract negotiations, a seller often agrees to complete repairs identified by the buyer at the time of signing the sales contract or later identified by the buyer's inspectors (refer to Paragraph 5.7 A.) and agreed to through an addendum to the contract. The Field Office should ensure that the repair conditions in the contract or addendum provide the specifics necessary for the seller to properly address the repair. Ideally, the contract or addendum will detail the existing problem, how the repair will be completed, who will perform the work (a licensed contractor should perform work that demands technical expertise), and how the repairs will be verified. If the repair conditions are vague or ambiguous, the Field Office should encourage the buyer to seek an addendum that better defines the repair conditions.

Before loan closing can occur, receipts for the repair work and any associated permit/contract documents must be obtained from the seller and reviewed by the Field Office. Documentation on all agreed to repairs must be provided. In addition, the buyer must be instructed to inspect the completed work and provide the Field Office with a written statement of acceptance or a written statement outlining deficiencies in the seller completed repairs. If deficiencies are noted, the buyer and seller must work to address the deficiencies before loan closing can occur.

Special care should be given if completion of repair work cannot take place until after the loan closing to ensure there are adequate funds. Closing agents should be instructed to release the funds to the contractor only after receiving written instructions from the Loan Approval Official. The Loan Approval Official may authorize the release of funds once the work, as indicated in the contract, is completed. The case file should be documented with invoices and the borrower's acceptance that the work has been completed to their satisfaction.

SECTION 1: SITE REQUIREMENTS [7 CFR 3550.56]

5.2 OVERVIEW

Once the applicant has found a property, the Agency needs to ensure that it fits program guidelines regarding sites. The site must be developed according to the development standards imposed by State or local government. These standards are often contained in zoning ordinances, building codes, subdivision regulations, and/or construction standards. In addition, the site must be located in a rural area; be modest; meet minimum standards regarding water and wastewater systems; and meet the Agency's street and access requirements of being on an all-weather road that is maintained by a public body or homeowner's association. This section addresses these site requirements.

5.3 RURAL AREADESIGNATION

A. Rural Area Definition

Rural areas are defined as:

- Open country or any town, village, city, or place, including the immediate adjacent densely settled area, which is not part of or associated with an urban area andwhich:
  - Has a population not in excess of 2,500 inhabitants; or
  - Has a population in excess of 2,500 but not in excess of 10,000 if it is rural in character; or
  - Has a population in excess of 10,000 but not in excess of 20,000, and-
    - Is not contained within a Metropolitan Statistical Area (MSA); and
    - Has a serious lack of mortgage credit for lower and moderate-income families as determined by the Secretary of Agriculture and the Secretary of Housing and Urban Development.
- Any area classified as ''rural'' or a ''rural area'' prior to October 1, 1990, and determined not to be ''rural'' or a ''rural area'' as a result of data received from or after the 1990, 2000, 2010, or 2020 decennial census, and any area deemed to be a ''rural area'' at any time during the period beginning January 1, 2000, and ending December 31, 2020, shall continue to be so classified until the receipt of data from the decennial census in the year 2030, if such area has a population in excess of 10,000 but not in excess of 35,000, is rural in character, and has a serious lack of mortgage credit for lower and moderate- income families.

1. Assessing "Open Country"

A site that is in "open country not part of or associated with an urban area" is one that is separated by open space from any adjacent densely populated urban area. Open space includes undeveloped land, agricultural land, or sparsely settled areas. Open space does not include physical barriers (such as rivers or canals), public parks, commercial and industrial developments, small areas reserved for recreational purposes, and open space set aside for future development.

In order to determine if a property is in open country, the Loan Originator should review recent maps, aerial photographs, and/or conduct a site visit. In particular, the Loan Originator should look for significant new development in parts of rural areas that adjoin non-rural areas, and investigate the likelihood that local authorities may re- designate the area's corporate limits.

2. Assessing "Population"

In order to find the population figures for a locality, the Loan Originator should use the decennial U.S. Census of Population, or population updates published by the U.S. Bureau of the Census. In calculating population figures for a locality, any incarcerated prison population must be excluded from the total area population.

3. Assessing "Serious Lack of Mortgage Credit"

This determination is made jointly by the Secretary of Agriculture and the Secretary of Housing and Urban Development (HUD).

4. Assessing "Rural in Character"

A rural in character (RIC) analysis must be completed for areas meeting "Special Considerations" as outlined in Paragraph 5.3 B. 1. and 2.

However, an area is automatically considered to be RIC when the population density is less than or equal to 1,000 persons per square mile. When the population density is greater than 1,000 persons per square mile, a RIC analysis must be completed. When conducting a RIC analysis, the State Director should also account for other factors affecting population density that include, but are not limited to the following:

- Economic Vitality: The local economy may be adversely affected by industry or market conditions such as high unemployment, recent loss of a large employer, or similar factors. If so, the area may be currently or imminently subject to out-migration that affects the RICanalysis.

- Colleges and Universities: In contrast to prison populations, college populations cannot be excluded from the total area population. However, the college population may be considered when determining the population density as part of the RIC determination. However, only the portion of the college population living on campus may be excluded from population density calculations.

B. Special Considerations

1. Exception for Rural Areas Designated Prior to October 1990

If an area was classified as rural prior to October 1, 1990, even if it is within an MSA, it may be still considered rural as long as it: (1) has a population between 10,000 and 35,000, (2) is rural in character, and (3) has a serious lack of mortgage credit. This designation can remain effective through receipt of census data for the year 2030. Or;

2. Exception for Rural Areas Designated Between January 1, 2000 and December 31, 2020.

If an area was classified as rural or deemed eligible any time between January 1, 2000 and December 31, 2020, even if it is within an MSA, it may be still considered rural as long as it: (1) has a population between 10,000 and 35,000, (2) is rural in character and (3) has a serious lack of mortgage credit. This designation can remain effective through receipt of census data for the year 2030.

3. Contiguous Areas

Two or more towns, villages, cities, or places that are contiguous may be considered separately for a rural designation if they are not otherwise associated with each other, and their densely settled areas are not contiguous.

When determining the population count for an area, the Loan Originator also should consider developed areas in contiguous counties or states. In cases involving contiguous counties, the appropriate population figure to be used for the area in question should be determined after consultation with the State Director. In an area involving contiguous states, the applicable population figure should be determined through an agreement between the two State Directors. The Loan Approval Official should contact both State Directors to help make this determination.

C. Reviewing Rural Area Designations

An area's rural designation may be changed as a result of a periodic review or after the decennial census of population. Both types of review are discussed below. In all cases, the local office should maintain a perpetual master file to document all rural area decisions and include documentation of all public notification actions taken.

1. Periodic Reviews

Each Field Office must review all areas under its jurisdiction every 5 years to identify areas that no longer qualify as rural. In areas experiencing rapid growth and in eligible communities within MSAs, the review should take place every 3 years. Field Office files must contain documentation that local planning boards, where available, were contacted at the time of each review to verify that areas considered open spaces are not scheduled for development in the next 5 years.

Field Staff must prepare a rural area review report that includes a recommendation on those areas that should be re-designated. An acceptable form for this report is a map showing an outline of the area recommended to be re-designated, and a cover letter explaining the reasons for the recommendation. The review report must be signed by the Loan Approval Official, and submitted to the State Director on or before February 28 of the review year.

2. Census Reviews

In addition to periodic reviews, the State Director is responsible for implementing re-designations based on the decennial U.S. Census of Population and any biannual updates. Immediately after receiving the population information from the Census Bureau, the State Director must make appropriate changes in designation for areas with populations under 10,000.

3. Public Notice

90-Day Public Notice: State or Field Office must publish a 90-day notice informing the public that analysis is being conducted to determine the area's eligibility designation. The 90-day public notice must specify the area that is being studied and invite comments from the public. The notice should be publicized and targeted to partners, groups, and organizations that are engaged in community and/or housing activities.

The notice may be published via the State Office ListServ notice or GovDelivery email service (if available), RD State Office Home page, or in a newspaper of general circulation within the area to be studied. When publishing via newspaper, the notice must be in easily readable type in the non-legal section of the newspaper(s) and must be bilingual if the affected area is largely non-English speaking or bilingual. The notice should appear for at least three consecutive days if published in a daily newspaper, or in two consecutive publications if published in a weekly newspaper.

30-Day Public Inspection Period: Prior to making the final rural area decision, the State Director must provide the public an opportunity to review any comments that were received in response to the 90-day public notice. The notice must describe the proposed revisions to the boundary lines, and provide a link to the map eligibility site that will reflect the proposed revisions.

30-Day Final Notice: If the State Director determines that the rural area designation will change from rural to non-rural, a one-time 30-day notice must be published. The notice must describe the revised boundary lines, the effective date of the re-designation, and provide a link to the map eligibility site that will reflect the change. The notice must be disseminated using the methods described above.

4. Final Determination

The State Director will make a final determination on designations based on the review report and public comments and notify the Field Office of the final decision.

5. Designation of Eligible and Ineligible Area Boundary Lines

By September 30th of each review year, or after the census review is complete, the State Director will develop, clear and distribute a State Supplement that updates, establishes, lists, and maps all ineligible areas in accordance with RD Instruction 2006-B. The State Supplement will include county maps showing all ineligible areas in each county.

Designation of eligible and ineligible areas will be updated to the public website: http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do.

Once the State has completed the review, a visual presentation of those areas designated as ineligible will be documented through the RD GIS Portal.

Boundary lines must meet the following criteria:

- If the boundary line is a road, the boundary between eligible area and ineligible area will be represented as the middle of the road. With this type of boundary line, oneside of a road may be eligible, while the remaining side is ineligible.

- Artificial buffer zones, such as an imaginary line 100 feet from a road will not be used.

- Boundary lines that are defined as city or town limits must be defined and labeled as of a specific date. Example – Ineligible area is the Claremore, Oklahoma limits as of January 1, 2009. Changes to the city limits such as annexation subsequent to the defined date will require review, public notification, preparation of a revised State Supplement, and update to the public eligibility website prior to implementation of the revised city limit boundary.

In this example, the re-designated area becomes ineligible when the process for the change is complete. The update of the State Supplement and the website should be implemented at the same time to the extent feasible.

Submitting Ineligible Area changes:

Requests for re-designation of ineligible area on the public website will be forwarded by the State Director together with the required State Supplement, in accordance with the instructions in Attachment 5-D. Please see Attachment 5-E, Eligibility System Modification Request Process, for detailed instructions and Attachment 5-F, Eligibility System Modification Workflow, is provided for visual purposes.

6. Making Loans in Areas Changed to Non-Rural

If an area's designation changes from rural to non-rural, the Loan Approval Official may approve loans in that area only under the circumstances listed below.

- If an application is received before an area's designation changed and the applicant selects a property in the newly designated non-rural area, a loan may be made for that property if it meets all other eligibility requirements.
- New conditional commitments may be issued in non-rural areas if a purchaser is found whose loan application was complete before the area's designation changed.
- Existing conditional commitments will be honored.
- Real Estate Owned (REO) property sales and transfers with assumption may be processed in areas that have changed tonon-rural.
- Section 504 Loan and Grant assistance may be provided on a property that already has an Agency loan.
- Subsequent loans may be made on a property that already has an Agency loan to: (1) make necessary repairs; (2) pay equity in connection with an assumption of the Agency loan; or (3) to pay equity to a departing co-borrower or (4) refinance a direct or guaranteed borrower's loan with a new direct or guaranteed loan if it meets all other eligibility requirements.

5.4 MODEST SITES

A qualified property must be predominately residential in use, character, and design (as opposed to commercial, industrial, or agricultural). Modest sites are defined by their size, value, income production use, and the presence of prohibited outbuildings outlined in Paragraph 5.6. The Loan Originator must verify that the requirements listed below are met.

- **Size.** There is no specific limitation to the size/acreage of the site, provided it is not large enough to be subdivided under local subdivision regulations.

- **Value.** The value of the site should not exceed 30 percent of the as-improved market value of the property. The 30 percent limitation may be exceeded if the site cannot be subdivided into two or more sites and the value of the site is typical for the area, as evidenced by the appraisal and the practices of other lenders.

- **Income-Producing Land.** The site must not have income-producing land that will be used principally for income producing purposes. Vacant land or properties used primarily for agricultural, farming or commercial enterprise are ineligible.

- **Zoning.** The property must comply with applicable zoning and restrictions. If an existing property does not comply with all current zoning ordinances, but it is accepted by the local zoning authority, the appraiser must report the property as legal non-conforming. The appraisal must reflect any adverse effect of the legal non-conforming use on the value and marketability of the property.

5.5 ADEQUATE SITE ACCESS, WATER, AND WASTEWATER SYSTEMS

The site must be accessible from an all-weather road maintained by either a public body or a homeowner's association. When the road is privately maintained by an association, there must be a legally enforceable arrangement for the ongoing maintenance needs of the roads.

The site must also have water and wastewater disposal systems, whether individual, central, or privately-owned and operated, that meet the applicable water and wastewater disposal system requirements of RD Instruction 1924-C. There must be assurance of continuous service at reasonable rates for central water and wastewater disposal systems. A system owned or operated by a private party must have a legally irrevocable agreement which allows interested third parties to enforce the obligation.

Private companies usually inspect individual wells and septic system and provide written results of the inspection. In addition, the responsible local or State regulatory agency must verify, in writing, that the privately-owned water and wastewater disposal systems, that serve multiple households, comply with the Safe Drinking Water Act (42 U.S.C. 300h) and the Clean Water Act (33 U.S.C. 1341), respectively. Inspections are not required on public water and wastewater disposal systems.

SECTION 2: DWELLING REQUIREMENTS [7 CFR 3550.63(a)]

5.6 MODEST HOUSING

To be considered "modest", the property must be one that is considered modest for the area, must not have a market value in excess of the applicable area loan limit, meet the standard square footage consideration, and must not have certain prohibited features.

A. Establishing Area Loan Limits Within a State

The standard area loan limit is 80% of the local HUD 203(b) limit in effect unless otherwise approved by the Deputy Administrator, Single Family Housing. The Agency website will be updated shortly after the annual updates to HUD's 203(b) limits are published.

Loan Limit Requests to Exceed the Standard

1. **Exceptions for Counties** States are not authorized to alter their limits throughout the year without prior approval from the Deputy Administrator, Single Family Housing. State Directors who have counties they believe merit loan limits exceeding the standard, may submit a request to the National Office by completing Form RD 2006-3, "Instruction and Form Justification." The request should be accompanied by a narrative and supporting data. The analysis should include local values for both existing homes in program-acceptable condition and the total costs to acquire or construct new dwellings.

2. **Exceptions for Individuals** The established area loan limits may be granted to accommodate the specific needs of an applicant, for example, to serve exceptionally large households or to provide reasonable accommodation for a household member with a disability. Requests for exceptions may be approved by the State Director if the cost of the property will exceed the limit by $5,000 or less. To request an exception, the Loan Originator must fully document the need for the exception.

   - For accommodations for household members with disabilities, the Loan Originator must provide the cost of accommodations that demonstrates that these costs cannot be accommodated within the area's modest housing limit; and

   - If exceptions are granted, the Loan Originator will follow UniFi procedures for overriding the maximum loan limits.

B. Notification

States should encourage stakeholders; such as certified loan packagers, intermediaries, real estate agents, brokers, building contractors, lenders, partners, etc. to sign up for GovDelivery to ensure they are informed of updates to the area loan limits as they occur.

C. Square Footage Consideration Standards

1. Maximum

Agency financed properties should generally not exceed 2,000 square feet living area, above grade as a general guideline, but not a firm limitation. The square footage consideration may be waived by the Loan Approval Official's next-level supervisor when the Field Office determines:

- The subject property is modest;
- The property is typical for the area and/or the applicant has special needs due to an exceptionally large household or a household member with a disability; and
- The property's anticipated utilities and maintenance costs are reasonable for the area and will not place a strain on the applicant's budget.

The maximum standard square footage consideration is based on gross living area that is above grade. An attached garage and a basement (including a basement that is partially above grade or is a walk- out) should not be included in the square footage calculation. This approximate calculation must be made at the time the Agency receives a purchase agreement or construction contract. Concerns regarding the size of the house must be immediately communicated in writing to the applicant.

2. Minimum

Agency financed dwellings are generally not less than 400 square feet to ensure they are designed and constructed for permanent occupancy and contain permanent areas for cooking, eating, sleeping and sanitary needs. Water and wastewater systems must be permanently connected. This square footage consideration may be waived by the Loan Approval Official's next-level supervisor when the Field Office determines a smaller dwelling or "tiny home" otherwise meets the same property standards as other Agency financed dwellings.

D. Prohibited Features

1. Swimming Pools

Properties that include in-ground pools will not be financed. It is not acceptable to remove a pool after closing to meet this requirement.

2. Farm Service Buildings and Income-Producing Structures

The property must not include buildings principally used for income-producing purposes.

- Farm service buildings such as barns, silos, commercial greenhouses, or livestock facilities used primarily for the production of agricultural, farming or commercial enterprises are ineligible. However, barns, silos, livestock facilities or greenhouses no longer in use for a commercial operation, which will be used for storage, do not render the property ineligible.
- Outbuildings such as storage sheds and non-commercial workshops are permitted if they are not used primarily for an income producing agricultural, faming or commercial enterprise.
- A minimal income-producing activity, such as maintaining a garden that generates a small amount of additional income does not violate this requirement. Home-based operations such as childcare, product sales, or craft production that do not require specific commercial real estate features are not restricted.

5.7 DECENT, SAFE ANDSANITARYDWELLINGS

To help ensure that dwellings are decent, safe, and sanitary (DSS) the Agency has established minimum standards for existing and new dwellings.

A. Existing Dwellings

Existing dwellings must be structurally sound and functionally adequate, and be in good repair or be placed in good repair with loan funds.

For an initial Section 502 direct loan to purchase an existing dwelling, the applicant must engage the services of a State-licensed inspector to perform a whole house inspection and provide a statement that the dwelling appears to meet the Agency's DSS standards with respect to: (1) termites and other pests (this may be separate from the whole house inspection); (2) plumbing, water and sewage; (3) heating and cooling; (4) electrical systems; and (5) structural soundness. The inspection report must be a comprehensive document that meets the minimum standards of the professional home inspector associations. When a State does not license inspectors, a qualified, independent, third party inspector may perform the inspection and provide the necessary certifications.

The Loan Originator should inform the applicant that if their loan application request falls through for whatever reason, they will remain responsible for paying their inspectors (unless the seller agreed to cover the inspection fees).

Once a report(s) covering all five items noted above is received by the Agency, the Loan Originator must identify any noted deficiencies that may make the home not decent, safe, and sanitary. If these deficiencies are not already addressed in the option or sales contract, the Loan Originator must inform the applicant that they must be addressed either through the seller assuming responsibility for the repair prior to closing or the repairs being required post-closing.

Special Considerations:

Low risk of termite infestation: A State Director may issue a state supplement waiving the termite inspection requirement provided the state's probability of termite infestation is slight to none and state law does not require one. The supplement, which must receive prior approval through the National Office, can remove the need for a termite inspection provided a dwelling shows no signs of active infestation.

Section 502 loan balance less than $7,500 and the repayment schedule does not exceed 10 years: If the Section 502 loan balance is less than $7,500 and the repayment schedule does not exceed 10 years, a whole house inspection is not needed and the dwelling may lack some equipment or features after repairs such as a complete bath, kitchen cabinets, closets, or completed finished interior in some rooms. These dwellings must otherwise meet the housing needs of the applicant and provide decent, safe, and sanitary living conditions when the improvements financed with the loan are completed.

Initial Section 502 loans for necessary repairs-only: An initial Section 502 loan can be made to an existing homeowner for necessary repairs provided any existing loan against the property is an affordable non-RHS loan. While a whole house inspection is not needed, the dwelling must otherwise meet the housing needs of the applicant and provide decent, safe, and sanitary living conditions when the improvements financed with the loan are completed.

B. New Dwellings

All construction must meet the standards contained in RD Instruction 1924-A. New dwellings include homes to be built, currently under construction, or those that are less than 12 months old and never occupied. When applicants enter into a contract to purchase a new dwelling, the Loan Approval Official must consider how the construction quality will be documented. The process for ensuring that the Agency's construction standards are met is described in Section 6 of this chapter and in Paragraph 6.7.

C. Survey Requirements

A survey is not required for any financed property unless the title insurance commitment specifically excludes coverage for the property and improvements in the loan policy. The currently adopted 2006 American Land Title Association (ALTA) lender's policy provides explicit "survey" (or boundary and encroachment) coverage without issuance of a special endorsement. A survey is usually required by the title insurance company to remove the exclusions from coverage related to boundaries, encroachments, easements and other

matters when issuing an owner's title policy. Although an owner's policy is not required by the Agency, the borrower may choose to have this coverage and use loan funds to pay for it provided the loan does not exceed the appraised value.

When a new survey is needed, it must contain boundary lines, any improvements, encroachments on the subject or adjacent property, above-ground easements, set-backs imposed by either restrictive covenant or zoning, and any additional requirements needed to obtain title insurance. For new construction, the boundary corners must also be clearly marked. An existing survey may be used if it meets the requirements of the title insurance.

D. Flood-Related Requirements

Flood insurance is required for all dwellings located within the 100-year flood plain, unless FEMA has granted an exception, and flood insurance is available as part of the community's flood plain management regulations.

For all new construction, substantial improvements, and existing dwellings the lowest floor (including basement) must be elevated to or above the 100-year flood level.

In addition, for newly constructed and substantially rehabilitated dwellings, the construction materials and methods used must be for the purpose of making the structure resistant to flood damage, and minimizing any damage that may occur. RD Instruction 426.2 contains further guidance on the National Flood Insurance Program and flood-related requirements.

All dwellings within the 100-year floodplain must be served by public utilities that are located and constructed to minimize or eliminate flood damage, or have an on-site water supply and waste disposal system located and constructed to avoid contamination of the water supply by the septic system due to flooding.

For all new construction, substantial improvements, and existing dwellings in a floodplain, the Agency must perform the eight step decision making process for alternative consideration in order to determine if a reasonable alternative to committing federal funding to a property in a floodplain exists. This process is outlined in detail in RD Instruction 1970-F, section 1970.256.

SECTION 3: ENVIRONMENTAL REQUIREMENTS
[7 CFR 3550.5]

5.8 PROTECTION OF ENVIRONMENTAL RESOURCES

The Agency considers environmental quality equally with economic, social, and other factors in its program development and decision-making processes. The environmental review process is intended to help Agency officials make decisions that are based on an understanding of the environmental consequences of a proposed action, and to take those actions that protect, restore, and enhance the environment.

This paragraph contains a general discussion of basic environmental requirements. Detailed environmental policies and procedures can be found in 7 CFR Part 1970 and the corresponding staff instructions in RD Instruction 1970 series, which contains compliance requirements for the National Environmental Policy Act (NEPA), as well as numerous other laws, Executive Orders, and Departmental Regulations on a variety of other environmental issues.

Environmental Library

At a minimum, each Field Office should maintain the following information in order to facilitate completion of environmental reviews. The State Environmental Coordinator can provide assistance in obtaining or understanding this information.

- The Environmental Resource Directory;
- Federal Emergency Management Agency (FEMA) floodplain maps;
- Natural Resources Conservation Service (NRCS) Soil Surveys and Important Farmland Soils; and
- U.S. Fish and Wildlife Service (USFWS) Coastal Barrier Resource System maps (as applicable).

In accordance with 7 CFR 1970.11, the environmental review must be concluded before the obligation of funds, therefore in no case will loan or grant funds be obligated without the completion of the environmental review. In addition, in accordance with 7 CFR 1970.5 (a) (5), mitigation measures described in the environmental review and decision documents must be included as conditions in Agency financial commitment documents, such as a conditional commitment letter or funding commitment.

While funds may be obligated subject to an appraisal, if the appraiser determines that there are environmental hazards on site, further environmental due diligence investigations may be required to determine the nature and extent of the contamination, and to determine the estimated cost of remediation. This information should be used by the Agency to make a decision related to property eligibility.

A. Types of Environmental Reviews

NEPA requires that Agency actions be classified into 3 basic categories of actions: those that are categorically excluded from NEPA review; those for which more information is needed to determine if the project will significantly impact the environment, and therefore preparation of an Environmental Assessment (EA) will be required; and those that have been determined to significantly impact the environment, and therefore require preparation of an Environmental Impact Statement (EIS). The Agency has been allowed to establish 2 categories of Categorical Exclusions: those that involve no or minimal alterations in the physical environment and typically occur on previously disturbed land, and therefore require no or limited environmental documentation to be submitted by the applicant (RD Instruction 1970-B, section 1970.53), and those that will cause more alteration of the environment and therefore require the submission of an Environmental Report (a brief report on the current environment of the project area and the expected environmental impacts of the proposed project) (RD Instruction 1970-B, section 1970.54). This classification of actions provides the Agency with a starting point for beginning its environmental review process. Most single family housing activities do not adversely affect environmental resources and have no cumulative effect, and therefore will qualify as a Categorical Exclusion without an Environmental Report; those which affect resources or have a cumulative effect may require an Environmental Review or an Environmental Assessment. For a complete list of housing actions and their classifications, refer to RD Instruction 1970-B, sections 1970.53 and 1970.54.

1. CategoricalExclusions

In accordance with RD Instruction 1970-A, a Categorical Exclusion is an action that does not individually or cumulatively have a significant impact on the quality of the human environment.

The following are routine financial actions related to single family housing transactions that are classified as Categorical Exclusions without an Environmental Report:

- Financial assistance for the purchase, transfer, lease, or other acquisition of real property when no or minimal change in use is reasonably foreseeable.
- Financial assistance for the purchase, transfer, or lease of personal property or fixtures where no or minimal change in operations is reasonably foreseeable.
- Sale or lease of Agency-owned real property, if the sale or lease will have no or minimal construction or change in current operations in the foreseeablefuture.
- The provision of additional financial assistance for cost overruns where the purpose, operation, location and design of the proposal as originally approved has not been substantially changed.

- Minor construction proposals such as:
    - Minor amendments or revisions to previously approved projects provided such activities do not alter the purpose, operation, geographic scope, or design of the project as originallyapproved;
    - Repair, upgrade, or replacement of equipment in existing structures for such purposes as improving habitability, energy efficiency (including heat rate efficiency), replacement or conversion to enable use of renewable fuels, pollution prevention, or pollution control;
    - Any internal modification or minimal external modification, restoration, renovation, maintenance, and replacement in-kind to an existing facility or structure;
    - Construction of or substantial improvement to a single-family dwelling, or a Rural Housing Site Loan project serving up to four families and affecting less than 10 acres ofland;
    - Siting, construction, and operation of new or additional water supply wells for residential, farm, or livestock use;
    - Replacement of existing water and sewer lines within the existing right-of-way and as long as the size of pipe is either no larger than the inner diameter of the existing pipe or is an increased diameter as required by Federal or state requirements. If a larger pipe size is required, applicants must provide a copy of written administrative requirements mandating a minimum pipe diameter from the regulatory agency with jurisdiction; and
    - New utility service connections to individual users or construction of utility lines or associated components where the applicant has no control over the placement of the utility facilities.

For each proposed action, RD Instruction 1970-B, Exhibit D, "Environmental Checklist for Categorical Exclusions," is prepared by the Agency to ensure that the specific proposal under consideration qualifies as a Categorical Exclusion, and that there are no extraordinary circumstances (RD Instruction1970-B, section 1970.52) or cumulative impacts related to the proposal, that the proposal is not connected to other actions with potentially significant impacts (see 40 CFR 1508.25(a)(1)), and that it is not considered a cumulative action (see 40 CFR 1508.25(a)(2)).

In general, extraordinary circumstances (RD Instruction 1970-B, section 1970.52) are unique situations presented by specific proposals, such as characteristics of the geographic area affected by the proposal, scientific controversy about the environmental effects of the proposal, uncertain effects or effects involving unique or unknown risks, and unresolved conflicts concerning alternate uses of available resources within the meaning of section 102(2) (E) of NEPA. Exhibit 5-2 provides a listing of the most common extraordinary circumstances.

Exhibit 5-2
Extraordinary Circumstances
• Any violation of applicable Federal, state, or local statutory, regulatory, or permit requirements for environment, safety, and health. • Any proposal that is likely to cause uncontrolled or unpermitted releases of hazardous substances, pollutants, contaminants, or petroleum and natural gas products. • An adverse effect on the following environmental resources: o Historicproperties; o Federally listed threatened or endangered species, critical habitat, Federally proposed or candidate species; o Wetlands; o Floodplains; o Areas having formal Federal or state designations such as wilderness areas, parks, or wildlife refuges; wild and scenic rivers; or marine sanctuaries; o Special sources of water (such as sole source aquifers, wellhead protection areas, and other water sources that are vital in aregion); o Coastal barrier resources or, unless exempt, coastal zone management areas; and o Coral reefs. • The existence of controversy based on effects to the human environment brought to the Agency's attention by a Federal, tribal, state, or local government agency.

RD Instruction 1970-B contains detailed information on the proper implementation of requirements affecting Categorical Exclusions.

It is important to note that development on tribal land or dependent Indian communities may require additional coordination with the tribe to determine if the proposal has an adverse impact on environmental or cultural resources. In accordance with RD Instruction 1970-H, Exhibit B, "When an applicant's proposal is located on tribal lands, defined in 36 CFR § 800.16(x) as all lands within the exterior boundary of any Indian reservation and all dependent Indian communities, and that tribe has designated a Tribal Historic Preservation Officer (THPO) in accordance with Section 101(d)(2) of [National Historic Preservation Act (NHPA)], the SHPO participates only under the conditions specified in 36 CFR § 800.2(c)(1)(ii). If the Indian tribe has not designated a THPO, then the SHPO participates in Section 106 review pursuant to 36 CFR § 800.2(c)(2)(i)(B)." Exhibit D of RD Instruction 1970-H provides guidance on working with Indian tribes in the NHPA Section 106 review.

2. Environmental Reports and Environmental Assessments

If it appears that extraordinary circumstances and/or cumulative impacts may be involved, an Environmental Report (ER) or an Environmental Assessment (EA) may be required in accordance with RD Instruction 1970-B, section 1970.54 and RD Instruction 1970-C. Through these review processes, the Agency will acquire the necessary documentation to: (1) demonstrate compliance with requirements for protection of environmental resources, including the development of practical alternatives to either avoid or lessen any adverse environmental impacts; and (2) demonstrate why the potential impact on resources is not considered to be significant and, therefore, an EIS is not required.

B. Flood Hazard Determination

FEMA's Standard Flood Hazard Determination Form (SFHDF) determines if the home is located in a Special Flood Hazard Area (SFHA) and states the availability of flood insurance based on if the community participates in the National Flood Insurance Program (NFIP). A home located in a SFHA is **not eligible** for Federal financial assistance unless flood insurance is available. The flood insurance can be through NFIP or under NFIP's "write your own" program where the policy is through private insurance that meets the requirements of 42 USC 4012a (b)(1)(A). Flood insurance must be obtained and maintained throughout the life of the loan when any portion of the home is located in a SFHA, including attached garages, decks and carports, etc. Flood insurance is not required for any additional structure that is located on the property but is detached from the home (such as detached shed, garage, or other ancillary structure). Flood insurance is not required for loans and grants with an original principal balance of $5,000 or less.

The information on the SFHDF will assist in the preparation of the environmental review documentation, which must examine whether there is a reasonable alternative to a proposed purchase or construction in a floodplain. The Loan Originator will be responsible for acquiring the SFHDF from CoreLogic Flood Services at: https://www.floodcert.com/. CoreLogic provides "Life of Loan Determination" in which the Agency will be notified should the site's floodplain designation change. The SFHDF must be acquired prior to the completion of the environmental review.

If the dwelling is located within a SFHA, the lowest floor (including basements) must be elevated above the base flood elevation (BFE). Proof that this requirement has been met is usually in the form of a FEMA Elevation Certificate, however other forms of documentation may be accepted (see RD Instruction 1970-F).

Additionally, for applications to purchase, construct, or substantially rehabilitate a dwelling in a floodplain, utilities should be flood-proofed or located above the BFE. If the dwelling does not use public utilities, the domestic well must be a minimum of 50 feet from the septic drain field (or more, depending on local or state codes). For minor repairs, these requirements are not applicable if the dwelling existed prior to the publication of the first FEMA flood map for that location. In accordance with RD Instruction 1970-F, section 1970.256 (b) and 1970.261(b), if the property is within a floodplain, the Agency approval official is responsible for notifying the applicant about the hazards associated with occupancy of locations within a floodplain at the earliest possible point in the Agency's decision-making process. A template notice can be found in RD Instruction 1970-F, Exhibit B, Attachment 2.

C. Responsibility for Environmental Reviews

The Loan Originator is responsible for ensuring that the appropriate level of environmental review has been completed prior to the commitment of federal funds. This includes the assembly and analysis of relevant material, the development and analysis of practical alternatives and mitigation measures (as appropriate), and the development of recommendations regarding environmental impacts and

environmental compliance. Applicants may be requested to provide information needed for the analysis.

If the appraiser marks "No" to the question, "Are there any adverse site conditions or external factors (easements, encroachments, environmental conditions, land uses, etc.)?" under the site portion of the Uniform Residential Appraisal Report, the Field Office is not required to conduct a site inspection in order to complete the environment review. If the appraiser answers in the affirmative, a qualified Rural Development official must conduct a site inspection as part of the environmental review process.

The Loan Approval Official will use the environmental review documents and, as appropriate, the recommendations of the State Environmental Coordinator (SEC), to make the Agency's final decision regarding an environmental impact determination and compliance with environmental requirements, as well as flood insurance requirements. For Categorical Exclusions without an ER, this decision is evidenced by the completion of RD Instruction 1970- B, Exhibit D, which will be signed by the form's preparer and the Loan Approval Official (if these are the same person, both applicable signatory lines should be signed). For Categorical Exclusions with an ER, the SEC must review the environmental documentation and sign the Exhibit D in addition to the preparer and Loan Approval Official. The Agency's decision for EAs is documented by the signing of the Finding of No Significant Impact (FONSI) by the Loan Approval Official; after reviewing the EA, the SEC will assist with the FONSI's preparation.

SECs are available to provide technical assistance and guidance. They also are available to assist in problem resolution on environmental issues. Environmental questions or problems should be referred promptly to the SEC. Furthermore, SECs will review and sign off on all Categorical Exclusions with an ER and EAs.

D. Noise Abatement

If a site is located near a major source of noise, the appraiser should consider this in their appraisal report. The information should be made available to the applicant, who may not be aware of the problem. The applicant, once informed, may wish to look for a different site or to consider some method of noise reduction. The Loan Approval Official should consult with the State Architect and the SEC on any proposals for noise reduction.

5.9 MANAGEMENT OF HAZARDOUS SUBSTANCES

The Agency must consider the management of hazardous substances, including hazardous wastes and petroleum products, from two perspectives: liability under hazardous substance and hazardous waste laws, and the economic risks posed by the presence of hazardous substances. Both of these issues are addressed through due diligence. Due diligence is the process of inquiring into the environmental condition of real estate, in the context of a,

real estate transaction, to determine the presence of contamination from hazardous substances including hazardous wastes and petroleum products, and to determine what impact such contamination may have on the market value of the property.

Appraisers are required to notify the Agency if they observe contamination from hazardous substances, or if information from research or interviews with individuals knowledgeable about the property indicates that the property might contain hazardous substances.

If an appraiser notices that a property may contain hazardous substances, or if the Agency has any other reason to suspect that a property is contaminated, the Loan Approval Official must initiate a due diligence review by completing Attachment 5-B, Single Family Housing Site Checklist. If the completed Attachment 5-B raises any concerns, it must be sent to the SEC for further evaluation and guidance. The SEC will contact a National Office Program Support Staff Environmental Protection Specialist to determine what further steps will need to be taken.

SECTION 4: SECURITY REQUIREMENTS

5.10 ACCEPTABLE MORTGAGE

Generally, there should be no non-Agency liens on the property at the time of or immediately after closing, unless they are part of a formal leveraging strategy, or the Agency loan is for essential repairs and a senior lien secures an affordable non-Agency loan. However, the Loan Originator may accept prior or junior liens as long as: (1) the lien will not interfere with the purpose or repayment of the Agency loan; (2) the total value of all liens on the property is less than or equal to the property's market value; and (3) the prior lien does not contain provisions that may jeopardize the Agency's security position or the applicant's ability to repay the loan.

5.11 OWNERSHIP REQUIREMENTS [7 CFR3550.58]

If the applicant defaults on the loan, the Agency must be able to foreclose on the property to settle the debt. Therefore, after the loan is closed, the applicant must have an ownership interest in the property that is acceptable to the Agency.

A. Responsibilities

In preparation for closing, the closing agent selected by the applicant must review the ownership interest the applicant will have to ensure that it meets the requirements established by the Agency in RD Instruction 1927-B. The closing agent must also ensure that the form of ownership conforms with the requirements of relevant State laws. After closing, the Loan Originator should compare the deed of trust or mortgage with the title opinion to assess lien priority, to verify recordation of the date and time, and to ensure that the loan closing instructions have been followed.

B. Acceptable Forms of Ownership

Several forms of ownership are acceptable to the Agency, but in all cases the applicant's ownership interest must be carefully documented.

1. Fee-Simple Ownership

The most common form of ownership is fee-simple ownership, under which the borrower holds a fully marketable title to the property. This title is evidenced by a deed that vests full interest in the property to the borrower.

Land Purchase Contracts

When the ownership interest is by virtue of a land purchase contract, the ownership interest must be converted to a deed/mortgage interest prior to closing the loan.

2. Secure Leasehold Interest

Although fee-simple ownership is preferable, the borrower may have a secure leasehold interest in the property. Leasehold interests are acceptable only when all of the following conditions apply.

- The applicant must be unable to obtain fee-simple title to the property, and the rent charged for the lease must not exceed the rate being paid for comparable leases.

- The lessor must own the fee-simple title (this provision does not apply to a lessor who is an American Indian possessing a leasehold interest on tribal allotted or trustland).

- Neither the leasehold nor the fee-simple title may be subject to a prior lien unless the Agency authorizes acceptance of the prior lien before loan approval. The amount ofthe Agency's loan, plus any prior liens, must not exceed the market value of the property including the value of theleasehold.

- The lease must be in writing, and must contain **all** of the following provisions:

  ◊ The lessor's consent to allow the Agency's mortgage;

  ◊ The right of the Agency to foreclose and sell the property without restrictions that adversely affect the market value of the property;

  ◊ The right of the Agency to bid at a foreclosure sale or to accept voluntary conveyance of the property in lieu of foreclosure;

  ◊ The right of the Agency to occupy, sublet, or sell the property should the leasehold be acquired through foreclosure, voluntary conveyance, or abandonment;

  ◊ The right of the applicant to transfer the leasehold and Agency mortgage to an eligible transferee who will assume the Agency's debt, if the borrower defaults or is unable to continue with the lease;

  ◊ Advance written notice of at least <u>90 days</u> to the Agency of the lessor's intention to cancel or terminate the lease;

  ◊Provisions are negotiated with the lessor before the leasehold interest is approved regarding the Agency's obligation to satisfy unpaid rent or other charges accrued before or during the time the Agency has possession of or title to the leasehold. During negotiations, the Loan Originator should consider the length of time it will take to foreclose, how much the Agency would be responsible for, and when the Agency would have to pay;

◊ Provisions to ensure fair compensation to the borrower for any part of the property taken by condemnation; and

◊ The unexpired term of the lease must be at least 150 percent of the term of the mortgage, unless the loan is guaranteed by a public authority, Indian Tribe, or Indian Housing Authority. For guaranteed loans, the unexpired term of the lease must be at least 2 years longer than the mortgage term. In no case may the unexpired term of the lease be less than 25 years.

- The language, specified in Attachment 5-C, must be inserted in the mortgage.

3. Life Estate Interest

The applicant may hold a life estate interest with the rights of present possession, control, and beneficial use of the property. All persons with any remainder interests in the property must be signatories to the mortgage, except as described in Paragraph 5.11 B. 4.

4. Undivided Interest

To be eligible for a loan if an applicant only has an undivided interest in the land, co-owners must also be unable to provide or obtain the financing for the improvements, either individually or jointly with the applicant. Generally, all legally competent co- owners must sign the mortgage. However, when one or more of the co-owners cannot be located, are not legally competent (and there is no legal representative who can sign the mortgage), or if the ownership interests are divided among so many co-owners that it is not practical to mortgage all of their interests, their interests may be excluded from the security requirements, as long as their interests do not exceed 50 percent of the property's value.

The loan amount shall be limited based on the percentage of the market value that is proportional to the percentage of the property interest owned by all persons signing the mortgage. The determination of market value should take into account any adverse effects that might result from selling mortgaged interests separately from nonmortgaged interests.

Only the State Director may approve the exclusion of co-owners' interests. The Loan Originator or the Loan Approval Official should prepare a recommendation for the State Director's review. The memo should include a full statement of ownership and the reasons for the proposed exclusion.

5. Possessory Rights

Possessory rights on an American Indian reservation or State-owned land, and the interest of an American Indian in land held in trust or deeds containing restrictions against alienation are acceptable forms of interest as long as the trust or restricted land will remain in trust or restricted status.

Tribal allotted or trust land must remain in trust or restricted status. In these cases, the mortgage, deed of trust, leasehold interest or other security interest must be approved by the Secretary of the Interior. Each State should issue a supplement to give guidance about making loans under these circumstances.

5.12 EXCEPTIONS TO THE AGENCY'S SECURITY REQUIREMENTS

Exceptions may be made under the circumstances described below.

A. Unsecured (Note Only) Section 502 Loans

A loan of less than $7,500 that is scheduled for repayment within 10 years from the date of the loan may be secured by a promissory note alone as long as the applicant:

- Has a credit history that indicates an ability and willingness to pay the debt when due; **and**,
- Has principal, interest, taxes, and insurance (PITI) and total debt (TD) ratios that indicate that the applicant will have sufficient income to meet allobligations**.**

In order to verify the above conditions, the Loan Originator should review the applicant's credit history as described in Section 3 of Chapter 4. The applicant cannot receive payment subsidy on an unsecured loan.

B. Best Mortgage Obtainable

Except for unsecured loans described in Paragraph 5.12 A., loans must be secured by a mortgage. In addition, title clearance and the use of legal services as required by RD Instruction 1927-B are necessary, unless the total RHS indebtedness is less than $7,500 or the loan is a subsequent loan made for minimal essential repairs necessary to protect the Government's interest.

SECTION 5: APPRAISALS [7 CFR 3550.62]

5.13 OVERVIEW

High-quality appraisals are key to ensuring that the Agency obtains adequate security for its loans. This section provides guidance about the types of appraisals that may be needed, when appraisals are required, how they are ordered, and how they must be reviewed.

5.14 REQUIREMENTS FOR APPRAISALS

Appraisals must meet the following requirements:

- **Qualified Appraiser**: Direct Single Family Housing appraisal assignments will be completed by a State–certified or licensed appraiser. Contract appraisers must be certified or licensed (or hold a "Temporary Practice Permit" issued by the respective State for a specific period of time and for a specific property), in the State in which the subject property is located. When using a contract appraiser, the Agency will contract with qualified appraisers that are active on the Appraisal Subcommittee website (www.asc.gov). However, when a contract appraiser is not available at an acceptable cost or is unable to complete an appraisal timely, a qualified Agency appraiser may conduct the appraisal. For credit transactions that are $100,000 or greater, Agency appraiser must possess the same qualifications as those required for contract appraisers, except that an Agency appraiser is only required to be certified in one State or Territory to perform real property appraisal duties as a Federal employee in all States and territories.

- **Standards**: All appraisals must be consistent with the current edition of the Uniform Standards of Professional Appraisal Practice (USPAP) available at www.appraisalfoundation.org and comply with Agency appraisal requirements, as described in this chapter and in 7 CFR 3550.62(a).

- **Timelines**: In general, appraisals are ordered under the nationwide contracts with Appraisal Management Companies (AMCs) and are generally completed within the 15 days. In-house appraisals are to be completed within 7 calendar days of receiving the appraisal order.

- **Nondiscrimination**: The appraiser may not use factors that are discriminatory on the basis of race, color, religion, sex, disability, familial status, or national origin in conducting the appraisal and valuing the property.

- **Use of a Third Party Appraisal**: The Agency may only use an appraisal for which it did not contract for when the appraisal was obtained from a leveraged lender involved in the transaction and that lender is financing at least 20 percent of the transaction with loan funds or 15 percent if entirely a grant, forgivable loan or deferred loan except when the lender is also a party to the transaction such as seller, builder, developer, or contractor.

The Agency reviewer should be especially diligent in reviewing these appraisals to ensure they meet USPAP and Agency appraisal requirements and the expected intended use is the same as the intended use reported in the appraisal. The Agency is not required to use any appraisal that it did not contract for directly.

5.15 TYPES OFVALUES

Depending on the type and purpose of the appraisal needed, an appraiser will be asked to provide an estimated value of the property based on one of the following:

- **As Is.** For existing dwellings that require no repairs/alterations or require repairs/alterations that typically add no value (e.g. general maintenance to the home's infrastructure and machinery); newly constructed dwellings; and to support a loan servicing action or to determine a disposition plan for a REO property.

- **Cost Approach Only.** See Paragraph 5.16 for a description.

- **Subject to Completion of Plans & Specs.** For newly constructed dwellings to be built.

- **Subject to Repairs/Alterations.** For existing dwellings that require repairs/alterations that typically add value (e.g. window replacement, siding replacement, and bathroom remodel).

5.16 APPRAISAL METHODOLOGY

Real estate appraisers make judgments about a property's value based on many factors, including location, market conditions, construction quality, and amenities. Single Family Housing Appraisals require one, two, or three approaches to value, as described below, depending on the specific assignment.

- **Sales comparison approach.** Under this method, the appraiser uses the recent sales data of properties that are comparable in location and characteristics to the security property in order to estimate a market value for the property.

- **Cost approach.** Under this method, the appraiser derives an estimate of value using replacement cost estimates for the improvements, less depreciation and an estimate ofthe site value. If applicable, the appraiser will identify the source of cost estimates, such as Marshall and Swift, used in the cost approach.

  The methodology used to estimate depreciation and an analysis may be stated in the report. This method is required for a dwelling to be constructed, or a dwelling that is less than one year old. The remaining economic life must be stated for all properties.

- **Income Approach**. Under this method the appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways, direct capitalization or yield capitalization. This method may only be used for Agency non-program REO properties.

The appraisal must be completed using Fannie Mae Form 1004/Freddie Mac Form 70, "Uniform Residential Appraisal Report," for all one-unit, single family dwellings; Fannie Mae Form 1004C/Freddie Mac Form 70B, "Manufactured Home Appraisal Report," for all manufactured homes; or Fannie Mae Form 1073/Freddie Mac Form 465, "Individual Condominium Unit Appraisal Report" for all individual condominium units.

5.17 ORDERINGAPPRAISALS

A. When Appraisals Are Needed

An appraisal is always required if the RHS loan is $7,500 or more and the Agency's debt *plus prior liens against the property will* exceed $15,000. (Another lender's appraisal is acceptable when the loan is part of a leveraging strategy under certain circumstances as described in Chapter 10.) If the total indebtedness against the property is less than or equal to $15,000, an appraisal is not required if the Loan Originator is confident that the property has sufficient value to serve as adequate security. Total indebtedness includes any prior liens on the property. The Loan Originator should include a statement of the property's value in the case file whenever an appraisal is not completed.

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. The Loan Originator must include a statement of the estimated property value in the case file. If the subsequent loan is for $7,500 or more, no appraisal is needed unless the property will be taken as security and at least 1 of the following conditions exists:

- The latest appraisal report of the real estate is over 2 yearsold;
- The physical characteristics of the property have changed significantly;
- The economic characteristics of the market have changed significantly;
- The Loan Originator is uncertain of the adequacy of the security; or
- The subsequent loan is in connection with a transfer of an existing loan.

B. Program Responsibilities

In accordance with RD Instruction 2024-A, contract services shall not involve decision making or other inherently governmental functions. Accordingly, prior to ordering an appraisal on the subject property, the Field Office will ensure that the property is located in an eligible area (which should be accomplished by entering the property's address in the Agency's property eligibility website); and review the sales contract and related materials (such as the property's Multiple Listing Service sheet, tax bills, etc.) to confirm that the dwelling and/or site appear to comply with the Agency's regulations and guidance.

If appropriate, the Field Office will also prepare a list of detailed repairs with estimated costs, or provide copies of bids from the applicant's contractor needed to ensure the property meets the Agency's regulations and guidance. This list of repairs, which is based upon the inspection reports prepared by State-licensed inspectors or qualified, third party inspectors hired by the applicant (refer to Paragraph 5.7 A.), will be provided to the appraiser for the purpose of obtaining a subject to repairs/alterations value provided those repairs/alterations typically add value and are not routine maintenance items (e.g. check smoke detectors, pest or septic inspection, add GFCI protection to exterior, kitchen, or bathroom electrical outlets, etc.).

C. Required Information

When the Loan Originator or Staff Appraiser requests an appraisal through the PMO's Procurement Requests SharePoint site using the current SFH Appraisal Request form (which can be found in the Direct Training Hub in SharePoint along with other appraisal training materials), the following information will be uploaded (as applicable): Cost Breakdown, Legal Description/Deed, Plan & Specs (New Construction), Plat of Property, Prior Appraisal (1004D only), Property Inspection Report, Proposed Repairs – Est. Cost $, Purchase Agreement & Amendments, and Survey (if available).

The applicant has until the expiration of their Certificate of Eligibility, as described in Paragraph 4.25, to present this information to the Loan Originator. Originals of this information should be kept in the case file, with copies provided to the appraiser.

D. Appraisal Disputes

In situations where an applicant disputes the appraisal, the Loan Originator will send Handbook Letter 17 (3550), Adverse Decision Involving an Appraisal. Handbook Letter 17 informs the applicant of their opportunity to review the appraisal with the Local Office. It also explains the applicant's right to a State Director review of the appraisal.

If the State Director's review concurs with the original appraisal, the Loan Originator will send Handbook Letter 18 (3550), Unfavorable Decision after State Director Review of an Appraisal, with the appropriate attachment, to the applicant.

5.18 APPRAISER RESPONSIBILITIES

The appraiser must provide the required estimates of value on the appropriate form. The appraiser may also be asked to provide a list of repairs deemed essential for the property to be made decent, safe, and sanitary.

If an appraiser observes potential contamination from hazardous substances, hazardous wastes, or petroleum products on the property, or obtains other information about such contamination, that information should be provided to the Agency together with an indication of its potential impact on the value of the property. The Loan Originator must initiate the due diligence process by completing Attachment 5-B. The completed Attachment 5-B must be sent promptly to the SEC for further evaluation and guidance.

5.19 REVIEWINGAPPRAISALS

Appraisals will be reviewed through a combination of administrative reviews and technical reviews. Administrative reviews can be completed by Agency staff trained to do so while technical reviews must be completed by certified Agency appraisers. A technical review for loan origination is an inherently governmental function and must be completed by an Agency appraiser. If an appraisal is found to be unacceptable by any review, other than a post review, the original AMC can make corrections or a new appraisal can be requested. The appraisal report must be acceptable before the loan-making process can continue.

A. Administrative Review

Administrative reviews are performed by the Loan Approval Official using Form RD 1922-15, Administrative Appraisal Review for Single Family Housing, and should be completed as soon as possible (but not later than 7 days from receipt of the appraisal). Reviews are performed on all contract appraisals and the contract appraiser's invoice cannot be paid until the appraisal review is complete. This review determines if there are inconsistencies in the appraisal report that warrant a secondary review of the property and the sales contract prior to loan approval, or if a technical review should be conducted by the staff appraiser prior to paying the appraiser's invoice. Indicators that a technical review may be required consist of the following: (1) Photos and maps are not consistent with the information provided in the appraisal; (2) Large variances in actual and effective age are not supported; (3) Comparables are located outside of the subject's market area or they are superior/inferior to the subject warranting excessive adjustments that are not supported; (4) Sales and Financing concessions are not reported or comparables are not properly adjusted when they are reported; (5) History of the subject property was omitted or not analyzed; and (6) Inconsistent information in the appraisal.

If the appraisal is acceptable, Field Staff must forward the email received from the appraiser to rd.appraisals@usda.gov with "Appraisal Reviewed & Accepted" in the subject line. If the appraisal is not acceptable, Field Staff must forward the appraisal and Form RD 1922-15 to the Agency's Regional Appraisal Services for a technical review. The request for the technical review must be through the Regional Appraisal Services SharePoint site.

B. Technical Review

A technical review can be either a field review or a desk review and is performed to determine whether the appraisal is credible within the intended use, was clearly reasoned, followed accepted appraisal techniques and RD requirements and had adequate support for the conclusion of value. Technical reviews are an inherently governmental function and must be performed by Agency certified appraisers. Technical reviews completed by Agency appraisers should be consistent with current USPAP requirements which can be found at www.appraisalfoundation.org.

Field reviews involve on-site visits to the subject property and the comparables while desk reviews are performed in the office. Technical reviews must be completed for the first appraisal conducted by any contract appraiser and for each appraiser that does multiple appraisals in a 12-month period. Additionally, each contract appraiser must be reviewed at least once in a three-year period. At the discretion of the Regional Appraisal Staff, additional technical reviews may be ordered if concerns were encountered on the first technical review. In addition to the initial review, technical desk or field reviews will be done in a random, spot- check method established by the State Director for contract appraisals but should be completed on a minimum of 5 percent of the contract appraisals received.

A technical review also may be requested by the Loan Approval Official when concerns are detected by the administrative review. The concerns will be documented on Form RD 1922-15. The Regional Appraisal Staff must determine if the concerns merit a technical review before the vendor's invoice can be paid or the loan closed.

5.20 PAYING FORAPPRAISALS

The Agency will charge a $475 fee for each loan application that requires an appraisal. Within 3 business days of receiving a completed application, the Loan Originator will provide the applicant with CFPB's standard Loan Estimate, which includes the amount of the appraisal fee.

The Agency may waive the fee for appraisals done for subsequent loans needed to make minimal, essential repairs necessary to protect the Government's interest, or for leveraged loans if a participating lender is obtaining an appraisal that is acceptable to the Agency.

If there is a conditional commitment, the appraisal fee should be paid to the contractor at closing as reimbursement for the cost of the appraisal that was included in the conditional commitment fee.

5.21 APPRAISALS IN REMOTE RURAL AREAS, ON TRIBAL LANDS, OR WHERE THERE IS A LACK OF CONVENTIONAL MARKET ACTIVITY

In remote rural areas, on Tribal lands, or areas with a lack of conventional lending market activity it may be difficult to obtain adequate comparable sales to appraise a property. In these areas, the sales comparison approach is not required. Instead, Form 1007, Marshall and Swift Square Foot Appraisal Form must be used. These appraisals may be conducted by Agency staff appraisers or by contract appraisers.

Remote rural areas are identified by the State Director and are defined as areas with these types of characteristics:

- Scattered population;
- Low density ofresidences;
- Lack of basic shopping facilities;
- Lack of community and public services and facilities; and
- Lack of comparable salesdata.

The results of the cost analysis completed using Form 1007 should be documented on the Uniform Residential Appraisal Report and efforts to obtain comparable market data must be documented in lieu of the sales comparison approach. External depreciation based on the remoteness of the site must not be considered; however, factors that impact the site such as immediate proximity to a feedlot, factory, or other similar considerations should be included. When a market is established in these areas, the Agency will again require complete appraisals.

SECTION 6: MANAGING CONSTRUCTION

This section generally refers to when the Agency is advancing funds through draws for new construction or substantial rehabilitation to a dwelling and when the funds are secured by a deed of trust or mortgage. Typically this work will involve a general contractor who is responsible for supervising and directly paying their subcontractors. Work described in this section is more complex and would commonly take more than 30 days to complete.

When applicants enter into contracts with builders who own the site and are self-funding the construction process, the Loan Originator will enter the dwelling type in MortgageServ as "Purchase New" rather than "Build". The Loan Approval Official should communicate with the applicant and builder on how acceptable construction quality will be documented in accordance with Paragraph 6.7 B. and the standards in RD Instruction 1924-A.

5.22 DESIGN

A. Disseminating the Standards

The applicant needs to know the standards the dwelling must meet before the design process begins. The Loan Originator should advise the applicant of the Agency's rehabilitation or construction standards.

The applicant and/or designer should also be provided with Form RD 1924-2, Description of Materials, prior to loan approval. This form may be used by the designer as a basis for preparing specifications. When other suitable specifications are available which will adequately describe the materials, equipment, and fixtures to be used on the job, this form need not be used.

B. Review and Approve the Drawings and Specifications

Once the drawings and specifications are finished, the Loan Originator should review them to ensure that they have been certified as meeting the Agency's minimum standards contained in RD Instruction 1924-A. The plans, specifications, calculations, and any modifications should be certified by the design professional on Form RD 1924-25, Plan Certification, to ensure that the appropriate codes and standards are met. If all applicable requirements are met, the Loan Originator may accept the documents. If they do not meet the applicable requirements, the Loan Originator should inform the applicant and designer, in writing, of the deficiencies or discrepancies. Once these issues are resolved, the Loan Originator should review the drawings and specifications again.

5.23 PREPARING FORCONSTRUCTION

A. Selecting the Contractor

The applicant should select the contractor who will build or rehabilitate the dwelling. The contractor must have a valid State contractor's license if required in the State, and such license must be documented by the Loan Originator. The Loan Originator must also verify the validity of the license with the appropriate State entity and document the applicant's file. For new construction,

the applicant will usually have a contractor in mind. For rehabilitation, the applicant will provide an adequate number of bid(s) from a qualified contractor(s).

The local office must review the bid(s) obtained to ensure costs are reasonable for the area serviced, the number of bid(s) are sufficient, and clearly identify the work and materials to be furnished. Bids should be solicited based on the developed set of specifications. Detailed specifications must include a complete breakdown on materials and labor and describe the quantity, quality, grades, styles, model numbers, etc.

The development budget may include an amount for contingencies not to exceed five percent of the construction cost for unusual and unforeseen circumstances beyond the contractor's or borrower's control (e.g. a major disaster in the region that causes an increase in materials and subcontracted labor costs). The contractor and borrower must submit a signed change order to the Loan Approval Official for concurrence to use the contingency funds. Contingency funds may also be used for other eligible loan purposes when approved by the Loan Approval Official. If not used, contingency funds will be deobligated or applied as a principal curtailment before or after the construction loan is converted to a permanent loan.

With the exception of approved manufactured dealer-contractors, the Agency should not maintain a list of approved contractors and an in-depth investigation of a contractor by the Agency is not required unless the surety requirements are triggered and an exception by the State Director is being considered. The need for an in-depth investigation should be rare; refer to RD Instruction 1924-A for further guidance. While a list of approved contractors should not be maintained, the Agency should give the applicant general advice on selecting a contractor (e.g. the benefits of "shopping around", ask for and check references, check the contractor's record with the Better Business Bureau, etc.).

B. Pre-Construction Conference

Once the contractor has been selected and the funds have been obligated, the Agency, the applicant, the designer (if applicable), and the contractor should hold a pre-construction conference. The purpose of the conference is to ensure that each party understands their respective roles and responsibilities. The parties should review the drawings and specifications to make sure everyone understands the scope of work, construction/thermal standards, environmental mitigation requirements, materials, inspection, change orders, and payment procedures. In addition, the contractor must be advised that should human remains, historic or cultural resources be uncovered during excavation or site development, all work must be stopped until an additional environmental analysis is completed.

For new construction or rehabilitation, the Loan Originator should provide Exhibits F and G of RD Instruction 1924-A to the contractor at or before the preconstruction conference. These exhibits give details on the completion assurance (surety) that the contractor can elect to obtain. The Loan Originator also should provide the "Equal Employment Is The Law" poster, which explains the requirements of applicable fair labor standard laws to the contractor to post at the work site.

The Loan Originator should prepare an agenda before the meeting and take minutes during the meeting. All parties should review and sign these minutes to indicate their approval. The Loan Originator may use Form RD 1924-16, Record of Pre-Construction Conference, or Attachment 12-F as a basis for preparing the agenda and recording the minutes.

To prepare for loan closing, the contractor and applicant should undertake any pre-construction activities necessary to ensure that construction can begin shortly after closing. This might include getting building permits and lining up material suppliers.

C. Construction Contract

For new construction, a written construction contract is always required. Written contracts are strongly recommended for all rehabilitation-related construction, and are required if there is construction work involved that would affect the dwelling's structural integrity (otherwise, a rehabilitation plan with cost estimates and bid specifications may be used). The applicant and contractor must sign the construction contract no later than at the pre-construction conference.

The Agency is not a party to this contract; however, the Agency provides many forms that should be used, including:

- Form RD 1924-6, Construction Contract;
- Form RD 400-1, Equal Opportunity Agreement;
- Form RD 400-3, Notice to Contractors and Applicants; and
- Form RD 400-6, Compliance Statement.

D. Department of Labor Notification

For contracts greater than $10,000, the Loan Originator must prepare a letter within 10 days after the contract is signed to notify the U.S. Department of Labor (DOL) of the execution. The letter notifies the U.S. Department of Labor of the contract period and amount, and the contractor's name, address, and employer identification number. Exhibit C of RD Instruction 1901-E provides a format for the Loan Originator to use. To obtain the most current DOL address, visit the DOL website https://www.dol.gov/ofccp/contacts/regkeyp.htm

5.24 CONSTRUCTION PERIOD

Once the construction contract is in place, construction can begin. All construction work should be inspected periodically in accordance with RD Instruction 1924-A to ensure that the work is done properly. When Agency staff perform an inspection, Form RD 1924-12 Inspection Report should be retained in the borrower's case file. The borrower should attend all inspections and be available to sign checks if payment is approved for the completed work.

Borrower's Responsibility for Inspection

The borrower is responsible for making inspections to protect his or her interest. The Agency's inspections are not intended to assure the borrower that the house is built according to the approved plans and specifications.

A. Qualified Inspector

The borrower will be responsible for making inspections necessary to protect their interest. Agency inspections are to protect the Agency's interest and to ensure the completion of construction or rehabilitation without implication of duty or obligation to the borrower. The final inspection can be conducted by the Loan Approval Official/Originator, or by a qualified third party. Inspections fees from third parties, like building permits, are eligible loan purposes. The inspector must be qualified to perform a construction inspection. A qualified third party includes, a local building official, an inspector certified by a nationally recognized home inspection entity, or a State-licensed inspector who inspects property according to the International Code Council (ICC). The ICC publishes the International Building Codes used by most of the jurisdictions within the United States. An appraiser may perform a completion valuation inspection but this report is not sufficient for the Agency's purpose without other supporting documentation such as a certificate of occupancy, or a final inspection from a local building official or other qualified third party.

A qualified third party inspector should be able to execute each of the following, as applicable:

- Inspecting for conformity with development plans and building codes, with written reports, at footing, framing, and final project phases.
- Preparation of additional inspection reports to include an analysis of the project's progress and quality of workmanship. Reports may include notes from teleconferences, inspection reports, video and/or photos.
- Issue specific and critical activity reports, video or photos of apparent errors or problems with workmanship.
- Document and evaluate any expressed opinion, fact, and observation by the owner, third party inspector, or building/code official.
- Document discussions with the owner, inspector(s) and contractor.

B. Periodic Inspections

If inspections are conducted by a third party, the inspector should submit periodic inspection reports to the Agency. The number and timing of inspections varies by the type and extent of work performed. When concerns are raised by the inspector, contractor, borrower, or Agency staff, clear communication between the parties is critical to successful completion of the work.

- **New construction.** Inspections may be conducted as necessary, but a minimum of 3 generally arerequired: (1) footings while under construction; (2) after the dwelling is framed-in; and (3) a final inspection once all work is complete.

- **Substantial rehabilitation.** A new addition, remodeling, moving walls, changing the foundation, or structural integrity of the home are examples of substantial rehabilitation. It is more complex than simple repairs and oftentimes affects multiple major components of the dwelling. This type of work generally requires permits and inspections by the local building department. All rehabilitation work must be inspected, but the Agency does not prescribe specific guidelines for inspecting rehabilitation work that does not involve new construction. A qualified third party inspector may be used and should inspect at intervals that are appropriate for the complexity of the work. The Loan Originator may also rely on current media (photos, video) and third party inspection reports, which are quickly and easily transmitted, to render an effective remote assessment for compliance determinations.

- **Final Inspection:** The following documents should be submitted prior to final payment and the Loan Originator should address the acceptability of the documentation and the completed repairs in the runningrecord:

  ◊ The forms listed in Paragraph 5.27.
  ◊ Borrower's written acceptance of the completed work.
  ◊ Photos of the completed work as provided by the borrower and/or contractor.
  ◊ A copy of a third party inspection (if applicable).

- **Environmental requirements.** If environmental mitigation measures are required, the Agency's inspector should follow up on the implementation of such measures and document compliance on Form RD 1924-12. Noncompliance with environmental mitigation measures must be reported promptly to the Loan Originator and the SEC.

C. Partial Payments

Example - Partial Payments

A contractor submits a payment request for $25,000 for work completed. The loan official prepares a payment for $15,000 (60 percent of the request), and withholds $10,000 (40 percent).

Partial payments for work completed can be issued after each inspection. The contractor and Loan Originator establish a draw schedule before loan closing. This schedule identifies when partial payments may be made, based on the amount of work completed. The amount of the payment is typically based on the value of the work, according to Exhibit A of RD Instruction 1924-A, or the Marshall and Swift guidelines. To ensure that all work will be satisfactorily completed, 40 percent (or a lesser percent if required by state law) of each payment request is typically withheld until all of the work items established in the draw schedule are complete and final payment is made, as described in Paragraph 5.27. The amount withheld can be reduced to 10 percent if the contractor obtains a Surety Bond, Performance Bond, or Payment Bond, but this is extremely rare.

D. Changes During Construction

If changes to the approved drawings and specifications are required during construction, the applicant and contractor must sign Form RD 1924-7, Contract Change Order. All modifications must be certified on Form RD 1924-25, Plan Certification, if the modification is regulated by the applicable development standard. Before signing it, the Loan Approval Official must review and sign the change order to ensure that the change fits within the approved loan amount and the funds are being used for an eligible loan purpose.

If the change order does not fit within the approved loan amount, several courses of action are possible:

- If the change is necessary and the borrower has repayment ability, the Agency may make a subsequent loan for the amount required to pay for the change;
- The scope of work may be scaled back to accommodate the change;
- The Agency may increase the loan amount if it can be supported by the appraisal, the cost of the property remains below the applicable area loan limit, and the borrower has repayment ability; or
- The borrower may be required to provide additional cash.

The environmental review for the project must be amended if there are changes to plan and specifications during construction (with or without the provision of additional financial assistance), which will alter the purpose, operation, location, or design of the project as originally approved.

5.25 CONSTRUCTIONCLOSEOUT

Once construction or rehabilitation work is satisfactorily completed, the Agency will make final payment to the contractor. Before that can occur, the Loan Originator must ensure that the work has been done properly and that no one will make any claims against the property (such as dissatisfied subcontractors). The Agency provides several forms to help the Loan Originator close out the construction process, as listed below.

- **Certificate of Contractor's Release.** Form RD 1924-9, Certificate of Contractor's Release must be signed by the contractor; it certifies that the work has been completed according to the drawings and specifications and the Agency'sstandards.

- **Release by Claimants.** The contractor must have each subcontractor used during construction sign Form RD 1924-10, Release by Claimants. It certifies that the contractor has paid each subcontractor and that there are no outstanding claims against the property for work performed.

- **Builder's warranty.** A warranty is a guarantee of the quality of work or materials. The Agency must have a copy of 1 of the 2 acceptable forms of builder's warranties as listed below (the applicant keeps the original).

  ◊ Form RD 1924-19, Builder's Warranty is a 1-year warranty provided to the borrower by the contractor after the construction work has been accepted by the borrower and the Agency. A builder's warranty is issued for new construction (or rehabilitation involving construction) that has had appropriate periodic inspections conducted by the Agency (or third party). The warranty guarantees that the builder will repair or replace any defects in materials or construction that occur within 1 year from the date of acceptance. NFAOC will be responsible for notifying the borrower of the expiration of the builder's warranty within eleven months of acceptance of the final inspection

  ◊ An insured 10-year warranty, as described in Exhibit L ofRD Instruction 1924-A, is an insurance policy issued by a third party. It is purchased by the builder and insures the borrower against builder defaults and/or major structural defects. This policy is typically used when the borrower is purchasing an existing, newly constructed dwelling and the Agency does not have acceptable documentation of construction quality.

- **Other documentation.** The Agency should maintain the following documentation, if applicable:

  ◊ Certificate of Occupancy (in some localities, a certificate of occupancy from the local authority is required before a new or renovated structure may be occupied);

  ◊ Copies of building permits;

- ◊ Form RD 1924-25, Plan Certification;
- ◊ Certifications regarding the adequacy of all systems, as described in Paragraph 5.7 A.; and
- ◊ Additional certifications and warranties, including insulation, carpet, major equipment and appliances.
- ◊ Thirty days after the final inspection and issuance of the Builder's Warranty, the Loan Originator will send Guide Letter 1924-1 of RD Instruction 1924-F informing the borrower that financial assistance may be available to them under the Compensation for Construction Defects Program.

5.26 SPECIAL SITUATIONS

A. Funds Remaining After Completion

When all planned construction or rehabilitation work has been completed, remaining loan funds may be used for any additional authorized loan purposes agreed upon by the applicant and the Agency. The Loan Originator must document the purposes for which the funds disbursed to the borrower will be used. The Loan Originator should adjust the development plan accordingly. Once the work is complete, the Loan Originator should maintain documentation of the work performed, such as invoices and receipts for materials, equipment or supplies. If no agreement can be reached, the Agency should apply the funds to the borrower's outstanding principal balance.

B. Construction Work that Cannot be Completed

If construction or rehabilitation work cannot be completed because the contractor is unable or unwilling to do so, and the applicant is unable to obtain another contractor (even with the Agency's assistance), funds should be applied to reduce the borrower's principal balance.

C. Deceased Borrowers

If a borrower dies before funds are disbursed for completed construction or rehabilitation work, the Loan Originator may authorize payment for work completed when there is written evidence (such as a letter) that the work was accepted as complete and satisfactory by the borrower or an authorized representative, and an authorized Agency representative has inspected the work and found it satisfactory. The authorized representative can endorse the check on behalf of the deceased borrower. If there is no authorized representative or the contractor files a mechanics lien, advice from the Office of the General Counsel (OGC) should be sought to ensure the Agency's interests are protected.

D. Compensation for Construction Defects

RD Instruction 1924-F defines a newly constructed dwelling. The Government may pay for major defects in dwelling construction that are not repaired adequately by the builder (such defects are usually the result of poor workmanship and the contractor refuses to repair the defect or the repairs are inadequate) only in dwellings that meet the eligibility requirements. To be eligible, the borrower must submit a claim to the Field Office within 18 months after the date the borrower signs the final inspection report. Guidance on how to notify borrowers of this policy, as well as instructions on how to implement the policy, can be found in RD Instruction 1924-F. This option should only be used as a last resort after all other actions to correct the defects have failed.

ATTACHMENT 5-A

STATEMENT OF WORK (SOW) FOR APPRAISAL SERVICES AND APPRAISAL INSTRUCTIONS SINGLE FAMILY HOUSING RESIDENTIAL PROPERTY

BACKGROUND: USDA Rural Development (RD) provides direct loans to eligible applicants for single family housing (SFH) residential property. To support this program, RD requires qualified appraisers to provide appraisal services, in accordance with 7 Code of Federal Regulations (CFR) Part 3550, at https://www.rd.usda.gov/files/3550appendix01.pdf.

OBJECTIVE: High quality appraisals to determine market value of SFH residential properties are key to ensuring the Agency obtains adequate security for its loans.

1. REQUIREMENTS FORAPPRAISALS:

A. The appraiser(s) signing the appraisal **must** be currently licensed in the state where the subject property is located as a Certified General, Certified Residential, or Licensed Appraiser. The appraiser shall be identified as active on the Appraisal Subcommittee website (www.asc.gov) at time of award and maintain professional errors and omissions insurance coverage in accordance with local and state government requirements. The appraiser shall have the specialized knowledge and experience necessary to be competent to appraise single-family housing.

A trainee may sign the report. If a trainee signs the report, the trainee's registration shall be provided to RD and the qualified appraiser shall sign as Supervisory Appraiser and personally inspect the subject property.

If an appraisal assignment is awarded to a contractor not holding an appraisal license, the awarded contractor may subcontract the appraisal assignment (or any part of it) to a qualified appraiser as outlined above with prior written consent of the RD Contracting Officer (CO). In the event of subcontracting the assignment, the contractor must also adhere to any licensure requirements imposed by any entity having jurisdiction in the state where the property is located.

If required by RD, the appraiser(s) signing the report shall defend the appraisal in court or in the RD appeals process. Cost associated with the defense of the appraisal, when necessary, will be negotiated under a separate purchase order/contract.

Except where noted herein, the contractor or appraiser shall provide all facilities, materials, supplies, tools, equipment, personnel, and travel to accomplish the performance of the requirements of this agreement.

B. The appraisal must comply with the current edition of the Uniform Standards of Professional Practice (USPAP) and agency requirements as described in Handbook-1-3550 https://www.rd.usda.gov/files/hb-1-3550.pdf , Handbook-2-3550, Chapter 2, https://www.rd.usda.gov/files/3550-2chapter02.pdf , together with 7 CFR 3550 as applicable to all additional appraisal requirements https://www.rd.usda.gov/files/3550appendix01.pdf, and Rural Development Instruction 1922-A, https://www.rd.usda.gov/files/1922a.pdf.

C. All appraisals for RD will provide market value based on the following market value definition used by federally insured financial institutions; Title XI of the Financial Institutions Reform and Recovery Enforcement Act of 1989; Definition of Market Value (12 U.S.C. 1818,1819):

Definition of Market Value:

Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

(1) Buyer and seller are typically motivated;
(2) Both parties are well informed or well advised, and acting in what they consider their own best interests;
(3) A reasonable time is allowed for exposure in the open market;
(4) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
(5) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

D. The appraisal **must** be completed using the most recent version one of the following forms: Fannie Mae Form 1004/Freddie Mac Form 70, "*Uniform Residential Appraisal Report*," for all one-unit, single family dwellings; Fannie Mae Form 1004C/Freddie Mac Form 70B, "*Manufactured Home Appraisal Report*," for all manufactured homes; Fannie Mae Form 1073/Freddie Mac Form 465, "*Individual Condominium Unit Appraisal Report*" for all individual condominium units; Fannie Mae Form 2055/Freddie Mac Form 2055, *"Exterior-Only Inspection Residential Appraisal Report,"* for all one-unit, single family dwellings for all properties when there is no visual inspection of the interior required or requested by RD; or Fannie Mae Form 1004D/Freddie Mac Form 442, *"Appraisal Update and/or Completion Report*".

2. TYPES OFVALUES:

Depending on the purpose of the appraisal, an appraiser will either determine the estimated market value of the property in its current condition (the "as-is" value) or; determine the estimated market value of the property, based on completion of construction in accordance with plans and specifications, or completion of rehabilitation based on a list of repairs to be considered (the "as-improved" value). https://www.rd.usda.gov/files/3550-1chapter05.pdf *(Handbook-1-3550, Chapter 5 (5.15))*

A. **As-Improved value (Value Subject to Completion)** - Loans for planned new construction or rehabilitation require an estimate of the "as-improved" value considering all construction / repairs / rehabilitation are complete.

B. **As-Is value** – Loans for existing dwellings (including a new construction dwelling that has been completed at the time of appraisal) involving no repairs require an as-is value. As-is value appraisals may also be needed to support loan servicing actions or to determine a disposition plan for real estate owned (REO) properties.

C. **Liquidation Value** – Liquidation appraisals may be needed to support loan foreclosure actions or to determine a disposition plan for real estate owned (REO) properties.

Liquidation Value, is defined as:

The most probable price that a specified interest in property which a property should bring under the following conditions:

1. Consummation of a sale within a short time period;
2. The property is subjected to market conditions prevailing as of the date of valuation ;
3. Both buyer and seller are acting prudently and knowledgably;
4. The seller is under extreme compulsion to sell;
5. The buyer is typically motivated;
6. Both parties are acting in what they consider to be their best interests;
7. A normal marketing effort is not possible due to the brief exposure time;
8. Payment will be made in cash in US dollars (or the local currency) or in terms of financing arrangements comparable thereto;
9. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal, 6th Ed.*, (Chicago: Appraisal Institute, 2015):

3. SPECIALINSTRUCTIONS:

A. **Loan Servicing Appraisal -** In the event the appraiser is requested to complete an appraisal for a servicing action such as foreclosure, short sale, deed-in-lieu, etc., an appraisal reflecting the market value of the property in its "as-is" condition is necessary for RD use.

Additionally, the appraiser shall provide under the same cover within the addenda, a liquidation value estimate for the subject property, as defined in Item 2, considering a prescribed marketing period of 30 days.

Typically, when a property in foreclosure is occupied, the appraiser will not be required to gain access for a visual inspection of the interior of the subject property. In this case, the appraiser must complete the appraisal report on the Fannie Mae Form 2055/Freddie Mac Form 2055, *"Exterior-Only Inspection Residential Appraisal Report"* unless specifically instructed otherwise by RD. The report must include an extraordinary assumption that there was no visual inspection to the interior and details of the sources being used for the interior components and the assumed condition of the interior. https://www.rd.usda.gov/files/3550-1chapter13.pdf *(Handbook-1-3550, Chapter 13 (13.17) (C) (3).*

B. **Subsidy Recapture Appraisal** – The appraiser must complete an as-is marketvalue appraisal.

The appraiser must provide the estimated contributory value of all capital improvements added to the subject property from original date of purchase as specified / indicated by the owner. In the event the appraiser cannot determine from local records what capital improvements may have been added, the appraiser may contact the Authorized Government Representative (AGR) to determine if original loan records detail historic property conditions. Each capital improvement must be noted individually. The appraiser must provide the estimated contributory amount of market value, if any, for each capital improvement item. Items considered to be general maintenance are not considered to be capital improvements. Values shall be supported by market evidence or other valuation methods deemed appropriate by the appraiser. https://www.rd.usda.gov/files/3550-2chapter02.pdf *(Handbook-2-3550, Chapter2 (2.23) (8)*

4. APPRAISALMETHODOLOGY

RD requires appraisers to use the following appraisal methods to arrive at a final estimate of value.

A. Sales Comparison Approach: Under this method, the appraiser uses the recent sales prices of properties that are comparable in location and characteristics to the subject property in order to estimate a market value for the property. The appraiser must use at a minimum three (3) comparable closed sales of single family residential properties that sold in the previous 12 month period unless the appraiser provides documentation that such comparable transactions are not available in the area. Comparable sales should be located as close as possible to the subject dwelling, from within the competitive market area, and should be the most comparable available for purposes of valuation.

B. Cost Approach: This method is specified in Handbook 1-3550, Chapter 5, found at this web address, http://www.rd.usda.gov/files/3550-1chapter05.pdf. For all proposed construction or all homes having an age of one year or less, RD requires that the appraiser develop, report and reconcile the cost approach to value. On homes over one year of age, the appraiser should determine whether the cost approach is relevant or necessary to determine a valid opinion of market value. This determination must be developed and reported in accordance with the USPAP.

   Under this method, the appraiser derives an estimate of value using replacement cost estimates for the improvements, less depreciation of all forms, and then adding an estimate of the site value.

   The appraiser will identify the source of cost estimates, such as Marshall and Swift Residential Cost service, local builder's cost data or other national publication for residential costs, used in the cost approach. The methodology used to estimate depreciation must be stated in the report.

   Properties in remote rural areas, on tribal lands (American Native and Alaskan Native), areas with a lack of market activity, or those representing a leasehold interest, where it may be difficult to obtain adequate comparable sales to be used for comparative purposes in order to appraise a property. In these areas, the sales comparison approach is not required. Instead, Marshall & Swift Form 1007, Square Foot Appraisal Form, must be used.

   Remote rural areas are identified by RD and are defined as areas lacking sufficient market activity and having the following characteristics:

   - Scattered population;
   - Low density ofresidences

C. Income Approach: Under this method, the appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yieldrate.
The Income Approach method of valuation may only be used for Agency Non-Program Properties such as Real Estate Owned (REO) or Non-Program Loan Assumptions.

USPAP Standards Rule 2-2 (a) (viii) require the appraisal report to summarize the information analyzed, the appraisal methods and techniques employed, and reasoning that supports the analyses, opinions, and conclusions; and also, *exclusion* of the sales comparison approach, cost approach, or income approach must be explained.

5. APPRAISALREQUIREMENTS:

A. The appraiser signing the appraisal report must understand and agree that RD is the client, and all reports must be addressed to USDA – Rural Development. The intended user ofthe report will be RD and any other intended user specified by the agency. Any questions relating to agency requirements of the appraisal assignment should be directed to the AGR and will not be directed to the property owner, real estate agent, builder/contractor, or any other party to the transaction. Communication relating to the assignment, directed

B. to the AGR, can come from the appraiser signing the appraisal report or the contractor selected for the assignment and in all instances RD staff will be granted permission to directly communicate with the appraiser signing the report.

C. The appraisal report must be Uniform Appraisal Dataset (UAD) compliant.

D. A property contact person will be provided by the AGR and ensure the appraiser has access to the subject property for inspection, unless the property is occupied and the appraisal is for foreclosure purposes. In this situation, a drive-by / exterior only appraisal shall be conducted utilizing the extraordinary assumption the condition of the exterior of the dwelling indicates a similar condition for the interior.

Appraisal fees or turnaround times must not be discussed with the property contact, the property owner or the borrower. The appraiser must notify the AGR immediately if any of the following occurs:

(1) The appraiser cannot gain adequate access to the property;
(2) The appraiser does not receive essential property information in a timelymanner;
(3) The appraiser has previously appraised or is in the process of appraising the property for another client; or
(4) The appraiser has any other potential conflict of interest with respect tothe assignment.

E. If appropriate, the RD Field Office will prepare a list of repairs needed to insure the property meets the Agency regulations and guidance. The list of repairs, which is based on the inspection reports prepared by State-licensed inspectors or qualified third party inspectors hired by the applicant will be provided to the appraiser for the purpose of obtaining an "as-improved" value. The list of repairs shall be provided by the RD Office processing the loan application. The appraiser is responsible to take into account the RD required repairs and must include the list of repairs in the addendum of the appraisal report.

F. The appraiser must provide an opinion of site value supported by a narrative of comparable land sales or other methods used for estimating site value. If support is not included in the appraisal report, a statement by the appraiser that such information is available for review upon request and in the appraiser's work file should be made. The land must be valued as though vacant and ready for development.

- The appraiser must specify whether the site is or can be subdivided into more than one site under existing local zoning ordinances.
- The appraiser shall discuss the site size and the concluded site value and whether they are typical for the subject market.
- Any land area of the subject property that is determined by the appraiser as either excess land or surplus land must be addressed and valued accordingly together with documentation and support within the appraisal report for the appraiser'sconclusions.

G. In addition, the appraisal report for a manufactured home must also meet the following requirements:

(1) Cost Approach**:** Manufactured Home Appraisal Reports will require a published cost data service such as the Marshall and Swift Residential Cost Guide or the N.A.D.A. Manufactured Housing Appraisal Guide calculations to be included. The appraiser **must** take at least one of those values into consideration in arriving at a value conclusion.

(2) Sales Comparison Approach: The appraisal report **must** contain at least two comparable manufactured home sales of similar configuration and quality. The appraiser may use either site-built housing or a different type of factory built housing as the third comparable sale if the appraiser explains the reason for selecting the comparable and support the appropriate adjustments in the appraisal report.

H. All extraordinary assumptions, hypothetical conditions, and limiting conditions must be clearly and prominently described in a single location near the beginning of the report and in appropriate sections of the appraisal. General assumptions and limiting conditions that reduce the normal scope of appraisal due diligence are not allowed.

I. The appraiser must keep all information and materials furnished by Rural Development, the owner, and/or property contact regarding the subject property confidential, as required by USPAP and the Gramm-Leach-Bliley Act (also known as the Financial Services Modernization Act of 1999). Any information obtained through public sources is not considered confidential information. Disregard of this privacy requirement will be cause for immediate debarment as a contractor for the federal government.

J. All appraisals must comply with the Fair Housing Amendments Act of 1988. According to the Act, it is unlawful for an appraiser to use factors that are discriminatory on the basis of race, color, religion, sex, disability, familial status, or national origin in the sale, rental, leasing, or financing of housing.

K. Each appraisal will be submitted electronically, using the industry standard Extensible Markup Language (XML) appraisal data formats Mortgage Industry Standard Maintenance Organization (MISMO), with embedded PDF. Electronic submissions, in the above formats, must be emailed to the AGR as indicated on the confirmed Single Family Appraisal Order Form, Purchase Order, or Task Order (SF 1449).

6. OBSERVEDCONDITIONS:

The appraiser is required to make a property inspection to gather data to support the determination of value. Readily observable conditions shall be noted.

A. The appraiser(s) signing the appraisal report must make at a minimum a personal inspection of the subject (interior and exterior) unless the appraisal is for foreclosure purposed of an occupied dwelling, then an exterior only inspection is required. Also, inspection of all comparable sales (exterior) at a minimum from the street. The appraiser must indicate that the subject's interior and exterior and all comparable sales were personally inspected / observed within the appraisal report. Readily observable conditions must be noted for the following: attic space, crawl space, floors and walls for significant structural failure, moisture damage, or evidence of past fire damage; the roof condition for remaining life; the mechanical systems for operability; and all surfaces for defectivepaint.

B. In the event that access to the subject interior and/or exterior cannot be obtained, the appraiser must obtain prior authorization to continue the assignment without inspection. In the event RD authorizes valuation without an inspection, the appraiser must comply with USPAP Standard Rule 1-2 (F) which requires the appraiser to identify any extraordinary assumptions necessary in the assignment. The extraordinary assumption must include detailed disclosure of the assumed condition, the source(s) the extraordinary assumption is based upon and must be clearly labeled as such within the appraisal.

C. The appraiser must note any suspected environmental hazards, including issues external to the property that could adversely impact the property's value. Examples of environmental hazards would include damaged asbestos-containing building materials, underground storage tanks, chemical leaks, spills, staining of ground surfaces, or on-site waste disposal such as sludge, oil, paints, or chemical residues. If the appraiser observes any suspected environmental hazards, he/she must notify the AGR immediately and refrain from finalizing aspects of the appraisal that could be impacted until resolution of the issue or until instructed otherwise.

D. The appraiser must notify the AGR. In the event the appraiser observes a deficiency in the property that does not meet minimum property requirements, of decent, safe and sanitary as outlined in HB-1-3550, Paragraph 5.7. (http://www.rd.usda.gov/files/3550-1chapter05.pdf).

E. For uninhabited dwellings where utilities are temporarily disconnected, the appraiser will inspect all mechanical systems (heating, plumbing, electrical) for observable conditions, but will not be responsible for reporting operability of these systems. Unless otherwise notified, the appraiser may assume operability for valuation purposes and this must be mentioned as an “extraordinary assumption” in the appraisal report.

F. Where applicable, appraisers should be familiar with the general provisions of “green properties” in single-family housing. The appraiser shall consider what impact (if any) such factors have on the value of the subject property. Any impact on value should be supported by market evidence.

G. The Mutual Self-Help Program, is a housing program utilizing supervised labor performed by borrowers as part of the construction process. Construction conducted under the program is supervised by technical experts to assure the quality of its completion.

Appraisal of properties constructed under the Mutual Self-Help Program should consider construction, materials and finish will be completed in a workmanlike and professional manner.

7. DOCUMENTATION:

All approaches to value and the value opinion must be in accordance with acceptable appraisal methodology.

A. All reports must include a location map (should include proximity to applicable road/highway), flood plain map when the property is located in a designated flood plain, land sales map, sales comparable map, rent comparable map (if applicable), plat map, and building sketch (indicating interior building layout, garages and all external buildings).

B. For new construction, the appraisal report must include clear original color photographs of the subject's front, rear, street and street easement (private access), if applicable. In all other appraisals colored photographs showing at a minimum the front, rear, and both sides to the exterior. Interior photographs should be included showing each room type, attic and crawl spaces, other non-gross living area (sun rooms, patio/deck/porch/fences) and any noted structural, safety and/or sanitary deficiencies. Additionally, photographs of improvement components that have been upgraded shall be included to document and support the appraiser's determination of the subject's effective age if different than its actual age. A current original photograph of each comparable sale and listing used in the completion of the appraisal is required. If the comparable sale and listing photographs are not available the appraiser should provide, at a minimum, multiple listing service photographs, whenever possible, along with the cited source from which the photographs were obtained.

C. The bedroom shall meet legal requirements (building code, zoning ordinance, etc.) as mandated by the local county/state government enforcement agency and applicable agency regulations where subject property is located, if any such legal requirements exist.

D. Verification from third party sources should be noted within the appraisal and maintained as part of the appraisers work file.

E. The appraisal shall include photographs of all external buildings as well as interior photos of the external buildings (if possible). The external dimensions for each of the external buildings must be included, preferably in the building sketch or identified in the addendum of the appraisal report.

The appraiser must estimate the remaining economic life of the subject's improvements, (the remaining number of years that the subject's improvements will contribute value to the land) and report this estimate in the cost approach section. An explanation is required if the remaining economic life is less than 30 years (the explanation is used to justify reducing the term of the mortgage to less than 30 years).

F. All appraisals of existing properties must include a discussion of deferred maintenance for the subject property. Items of deferred maintenance must be listed, and cost to cure for each item must be estimated with support provided.

G. All reports must include a written explanation and documentation to support individual line item adjustments. Total net adjustment percentages and gross adjustment percentages when compared with the comparable sale unadjusted sale price shall be discussed.

8. COMPLETIONCERTIFICATION:

A. If determined by Rural Development (RD), the appraiser may be requested to re-inspect properties to determine if repairs to the home or construction of home were completed. RD shall determine the need for an appraiser to re-inspect a property. Re-inspection services may also be ordered on a separate contract if required. A list of additional repairs will be provided to the appraiser. Not all "subject to" appraisals will require re- inspection services.

B. The appraiser shall submit their findings using the Fannie Mae Form 1004D/Freddie Mac Form 442 "*Appraisal Update and/or Completion Report*." The completed report shall be delivered to the AGR within **7** business days from the date the order was received. The report shall include pictures of completed work.

C. Re-inspection reports are due within **7** business days after notification is received from the AGR.

9. APPRAISAL REPORT DELIVERYDEADLINES:

The appraiser shall complete and deliver appraisals to the AGR within **10** business/working days or specified noted delivery time after date of order, or upon receipt of the appraisal information from AGR unless a different deadline is set by written mutual agreement at the time of order. If corrections and/or amendments to the appraisal are requested by the AGR, the corrections and/or amendments are to be delivered as soon as possible, but not later than **4** business days following the request unless, by written mutual agreement, other arrangements are made. If, for any reason the timely delivery of the appraisal report is delayed for reasons beyond the appraiser's control, the appraiser must contact the AGR and convey the reasons for the delay.

If, for any reason the timely delivery of the appraisal report is delayed for reasons beyond the appraiser's control, the appraiser must contact the AGR and convey the reasons for the delay.

10. REVIEW OF THE APPRAISALREPORT:

All appraisals prepared for RD are subject to technical review by the agency. Appraisers must be prepared to discuss their analyses, reasoning, opinions, and conclusions. Additionally, if requested, they must provide additional written support, clarification, and/or corrected appraisal pages or report. If requested by the AGR or RD's Regional Agency Appraiser, they will provide assistance to monitor the progress and quality of the appraiser's performance and in all instances RD Regional Agency Appraisers will be granted permission to directly communicate with the appraiser signing the report as part of the review process.

11. ATTACHMENTS:

The Agency will provide the appraiser all necessary support information available at the time of appraisal engagement.

12. COMPLIANCE WITH STATEMENT OFWORK:

The appraiser must follow all provisions and instructions contained in this Statement of Work. When, in the opinion of the appraiser, the Regional Agency Appraiser or the AGR request effort(s) falling outside this Statement of Work, the appraiser shall promptly notify the AGR, in writing.

The Regional Agency Appraiser or the AGR has the authority to direct the accomplishment of any effort which goes beyond the Statement of Work, however, any changes resulting in additional charges must be approved by the contracting officer prior to commencement of work.

If the appraiser is unable to fully comply with this Statement of Work, the appraiser must decline the appraisal assignment in accordance with the USPAP.

13. SPECIFIC STATEREQUIREMENTS:

None

PLEASE NOTE: FAILURE TO FOLLOW THE STATEMENT OF WORK AND APPRAISAL INSTRUCTIONS CAN RESULT IN DENIAL OF FUTURE ASSIGNMENTS.

ATTACHMENT 5-B

SINGLE FAMILY HOUSING SITE CHECKLIST

_____ _____
Buyer/Owner Name Property Address

Name of Subdivision: _____

Year Built: _____

Property is currently ( ) occupied ( ) unoccupied. Was interior accessible? ( ) Yes ( ) No

1. SITE SUITABILITY, ACCESS, AND COMPATIBILITY WITH SURROUNDING DEVELOPMENT

Has the site been used as a dump, sanitary landfill, or mine waste disposal area? ( ) Yes ( ) No If no, is the site in proximity to any such uses? ( ) Yes ( ) No

Is there indication of:

	Yes	No		Yes	No
distressed vegetation	( )	( )	oil/chemical spills	( )	( )
waste material/containers	( )	( )	abandoned machinery, cars, refrigerators, batteries, tires, etc.	( )	( )
soil staining, pools of liquid	( )	( )	transformers, fill/ventpipes, pipelines, drainage structures	( )	( )
loose/empty drums, barrels	( )	( )			
foul odor	( )	( )			
underground or above ground storage tanks	( )	( )			

Are there property easements for high-tension power lines or gas lines? ( ) Yes ( ) No

Are there other unusual conditions on site which might indicate potential for contamination from hazardous waste, hazardous substances, or petroleum products? ( ) Yes ( ) No

Is the site adjacent or in proximity to industrial areas, refineries, dry cleaners, chemical storage areas, recycling facilities, oil or gas wells, fueling stations, etc.? ( ) Yes ( ) No

Note: Complete a **Transaction Screen Questionnaire (TSQ)** for any "YES" answer in item 1 before proceeding further. Contact the State Environmental Coordinator with any questions.

Are any of the following conditions present? Check if observed and explain on page 5 of 5:

( ) mold/mildew
( ) insect infestation
( ) asbestos (interior)
( ) asbestos (exterior)
( ) peeling paint(interior)
( ) peeling paint (exterior)
( ) ponding/standing water
( ) evidence of water runoff from adjacent properties
( ) knowledge of past or current use for production of methamphetamine

Is the site compatible with surrounding area in terms of:

	Yes	No		Yes	No
Land use	( )	( )	Building type	( )	( )
Height, bulk, mass	( )	( )	Building density	( )	( )

Will the site be unduly influenced by:

	Yes	No		Yes	No
Building deterioration	( )	( )	Transition of land uses	( )	( )
Postponed maintenance	( )	( )	Incompatible land uses	( )	( )
Obsolete public facilities	( )	( )	Inadequate off-street parking	( )	( )

2. SOIL STABILITY, EROSION, AND DRAINAGE

Slopes: ( ) Not applicable ( ) Steep ( ) Moderate ( ) Slight

Is there evidence of slope erosion or unstable slope conditions on or near the site? ( ) Yes ( ) No

Is there evidence of ground subsidence, high water table, or other unusual conditions on the site?
( ) Yes ( ) No

Is there any visible evidence of soil problems (foundations cracking or settling, basement flooding, etc.) in the neighborhood of this site? ( ) Yes ( ) No

Have soil studies or boring been made for the site or the area? ( ) Yes ( ) No ( ) Unknown

Do the soil studies or boring indicate marginal or unsatisfactory soil conditions? ( ) Yes ( ) No

Is there indication of cross-lot runoff, swales, drainage flows on the property? ( ) Yes ( ) No

Are there visual indications of filled ground? ( ) Yes ( ) No

Are there active rills and gullies on site? ( ) Yes ( ) No

If the site is not to be served by a municipal waste water disposal system, has a report of the soil conditions suitable for on-site septic systems been submitted?( ) Yes () No ( ) Not Applicable

3. NUISANCES ANDHAZARDS

Will the site be affected by natural hazards:

	Yes	No		Yes	No
Faults, fracture	( )	( )	Fire hazard materials	( )	( )
Cliffs, bluffs, crevices	( )	( )	Wind/sand storm concerns	( )	( )
Slope-failure from rains	( )	( )	Poisonous plants, insects, animals	( )	( )
Unprotected bodies of water	( )	( )	Hazardous terrain features	( )	( )

Will the site be affected by built hazards and nuisances:

	Yes	No		Yes	No
Hazardous street	( )	( )	Railroad crossing	( )	( )
Dangerous intersection	( )	( )	Inadequate screened drainage catchments	( )	( )
Through traffic	( )	( )	Hazards in vacant lots	( )	( )
Inadequate separation of pedestrian/vehicle traffic	( )	( )	Chemical tank-carterminals	( )	( )
Traffic way	( )	( )	Other hazardous chemical storage	( )	( )
Inadequate street lighting	( )	( )	High-pressure gas or liquid petroleum transmission lines on site	( )	( )
Quarries or other excavations	( )	( )	Overhead transmission lines	( )	( )
Dumps/sanitary landfills or mining	( )	( )	Hazardous cargo transportation routes	( )	( )
Heavy industry	( )	( )	Oil or gas wells	( )	( )
Incinerators	( )	( )	Industrial operations	( )	( )
Power generating plants	( )	( )	Cement plants	( )	( )
Oil refineries	( )	( )			

Will the site be affected by nuisances:

	Yes	No		Yes	No
Gas, smoke, fumes	( )	( )	Unsightly land uses	( )	( )
Odors	( )	( )	Abandoned vehicle	( )	( )
Vibration	( )	( )	Vermin infestation	( )	( )
Vacant/boarded-up buildings	( )	( )	Industrial nuisances	( )	( )
			Other _____	( )	( )

4. WATER SUPPLY, SANITARY SEWERS, AND SOLID WASTE DISPOSAL

Is the site served by an adequate and acceptable:

water supply ( ) Yes ( ) No ( ) Municipal ( ) Private;

sanitary sewers and waste disposal systems ( ) Yes ( ) No ( ) Municipal ( ) Private; and

trash collection and solid waste disposal ( ) Yes ( ) No ( ) Municipal ( ) Private.

If the water supply is non-municipal, has an acceptable "system" been approved by appropriate authorities and agencies?
( ) Yes ( ) No

If the sanitary sewers and waste water disposal systems are non-municipal, has an acceptable "system" been approved by appropriate authorities and agencies?
( ) Yes ( ) No

5. NOISE ABATEMENT

Is the site located near a major noise source, i.e., civil airports (within 5 miles), military airfields (15 miles), major highways or busy roads (within 1000 feet), or railroads (within 3000 feet)? ( ) Yes ( ) No

6. AIRPORTHAZARDS

Is the project within 3,000 feet from the end of a runway at acivil airport? ( ) Yes ( ) No

Is the project within 2-1/2 miles from the end of a runway at amilitary airfield? ( ) Yes ( ) No

7. OTHERCONDITIONS

Are there any field conditions not specified above that would adversely affect the acceptability of the lots/sites? ( ) Yes ( ) No

_____ _____
Prepared By Date

ITEM NUMBER	ADDITIONAL COMMENTS

ATTACHMENT 5-C

AMENDMENTS TO MORTGAGES WITH LEASEHOLD INTEREST

The following paragraphs must be inserted in the mortgage. The first paragraph should be placed directly before the legal description of the real estate.

> "All Borrower's right, title, and interest in and to the leasehold estate for aterm of _____ years beginning on_____, 20____, created, executed andestablished by certain Lease dated_____, 20____, by_____, Page_____of _____Records of said County and State, and any renewals and extensions thereof,and all Borrower's right, title, and interest in and to said Lease, covering the following real estate."

> "Borrower will pay when due all rents and any and all other charges required by said Lease, will comply with all other requirements of said Lease, and will not surrender or relinquish, without the Government's written consent, any of Borrower's right, title, or interest in or to said leasehold estate or under said Lease while this instrument remains in effect."

ATTACHMENT 5-D

TRANSMITTAL COVER SHEET FOR MAPPING SYSTEM MODIFICATION

Utilize this as a coversheet to transmit your request for ineligible area re-designations or errors identified to the present public website mapping system. Complete all fields to avoid delays in your request.

Request: ☐ Re-designation of rural areas

☐ Correction of Error to existing mapping system

State: _____

Applicable Counties: _____

Submitters Name - Point of Contact: _____

Email Address: _____

Telephone #: _____

☐ Form RD 2006-3, Instruction and Form Justification has been completed and a copy of the State Supplement to the HB-1-3550

☐ has been approved or ☐ is included with this submission.

Documentation Submittal:

Email	
Send to: RA.dcwashing3.SFHGLD(SFHGLD@usda.gov) AND RA.dcwashing2.RDSFHDP(SFHDIRECTPROGRAM@usda.gov)	
(When an email copy is not feasible, contact the SFH Direct Loan Division for instructions.)	

Comments: Include additional information regarding errors to the present mapping system or re- designation comments.

ATTACHMENT 5-E
ELIGIBILITY SYSTEM MODIFICATION REQUESTPROCESS

Instructions for Eligibility Map Changes

No map changes will be processed without an approved Form RD 2006-3 showing the rural area changes as adopted by the State.

The preferred method of delivery is electronic. Refer to Attachment 5-E regarding the level of detail and process flow that occur once modified maps and text is submitted. There are three types of modification requests. The level of complexity (the number of modifications requested) determines the length of time to production implementation.

Allow ample time prior to implementation of revised ineligible areas. The RD GIS Portal is the preferred method for maps as they are digitized and facilitate changes to the mapping system. Maps that require digitizing to enable posting to the public eligibility website will require additional time, as will substantial changes to the existing mapping system.

Occasionally States identify actual errors to the public website mapping system (i.e. a correction to an incorrectly coded map). This type of modification falls under Type 1 identified in Attachment 5-F.

Attachment 5-F is provided for visual purposes.

The following information discusses the process of requesting changes to the public eligibility website. It also discusses what the State Offices need to do in order to test and approve requested modifications. Finally, it will provide an idea of what is involved in the request approval process that must go through the Configuration Management & Standards Compliance Branch in the St. Louis DCIO office. The level of detail is provided to keep States abreast of the processes that must take place in order to modify the public eligibility website.

I. Modification Request Types, Request Instructions and Examples

There are 3 types of modification requests. Their descriptions are below, along with the procedure to complete a request. The differences are (1) the number of modifications within a request and (2) the length of time it will take for making the modifications and their eventual deployment to the Production environment.

The RD GIS Portal will be used to collaborate with and convey map changes to the RD GIS Specialist. For further guidance, please refer to the RD GIS Portal Collaboration Guide which is published on the Single Family Housing SharePoint site under the Rural Areas folder.

*** Type 1 – Basic Modification\Correction Request**:

A basic modification request is a request that requires modification to the text description and/or a State's eligibility map (mapping to be based at a county level). A basic modification has no more than 2 ineligible areas within the request. This request should include a map with an outline of the new or modified ineligible area. Type 1 requests (including changes to boundary lines or corrections to erroneous maps) take approximately one to two weeks for modifications. When modification is complete, the requestor will be contacted for testing. Once the maps are tested and approved by the requester, the implementation process will begin. The timeline for modification and implementation is typically 3 to 5 weeks.

*** Type 2 - Moderate Modification\New Eligibility Area Request**:

A moderate modification or new eligibility area request is a request that requires significant modifications to more than 2 ineligible areas on a State's eligibility map (mappings being based at a county level), or is a newly defined ineligible area. This request should include a map with an outline of the new or modified ineligible area. Type 2 requests take approximately two to four weeks for modifications. When modification is complete, the requestor will be contacted for testing. Once the maps are tested and approved by the requester, the implementation process will begin. The timeline for modification and implementation is typically 4 to 7 weeks.

*** Type 3 – Text Description Modification Request**:

A text description modification request is only for text changes. Type 3 requests should contain the exact text the Field Office requires to be placed on the site. The text description will be utilized to prepare the boundary lines and will be compared to the map submitted. It is important that the text version clearly defines the boundaries submitted. When modification is complete, the requestor will be contacted for testing. Once the text version is tested and approved by the requester, the implementation process will begin. The timeline for modification and implementation is typically 2 to 3 weeks.

*** How to request a modification, addition or correction**:

The State Office should request changes through utilization of a transmittal similar to Attachment 5-D. **The Program Director is the State point of contact and communication regarding modifications, additions or corrections must be transmitted through the Program Director**. Requests will not be accepted from Field Offices. Electronic requests will be forwarded to the National Office at: RA.dcwashing3.SFHGLD (SFHGLD@usda.gov) and RA.dcwashing2.RD-SFHDP (SFHDIRECTPROGRAM@usda.gov). Accompanying each request, the State must clearly indicate the type of request to be performed. **The request should have detailed listings of all changes required by county and\or city.**

The transmittal should also clearly reference what should be changed on the public eligibility map. Clearly referencing the changes to occur are recommended as follows: 1) If the State or Field Offices have access to Microsoft Word (place a copy of a map of the area to be modified into a Microsoft Word document. Utilize the drawing tools within Microsoft Word for highlighting changes that are needed. 2) If the State or Field Offices have access to Adobe Acrobat, use the tools to draw on an existing map. 3) Scan a hand-written modification on a printed map. The examples provided are suggestions to a timelier more accurate implementation of boundary line changes. If the State or Field Office cannot provide a detailed mapping, a text description only will be accepted. Insure the text version clearly defines the ineligible boundaries. Personnel from the Enterprise Technologies Branch in the St. Louis DCIO office will contact the requestor with any questions.

II. Testing Requested Changes

Once the modifications have been made, they are implemented into the Test environment. Upon these changes being made in the Test environment, the requestors will be contacted and asked to review the requested modifications for approval.

The State or Field Office representatives that made the initial request should then review the requested changes in the Test environment. An email notification will be sent to the requestor notifying them of modifications implemented into the Test environment. The Test environment can be found at the following link:

Eligibility Test Site: https://eligibility.test.sc.egov.usda.gov/eligibility/welcomeAction.do

The user's e-authentication identification will be utilized to access the site.

Log into the test environment and review the changes on both the map and the text description. If there are any issues with what has been changed, or questions, refer those issues/questions to whom the email request was received from.

III. Approving Requested Changes and the Implementation Process

Once the requestor has reviewed and approved the changes necessary for their ineligible area map, respond to the email requestor stating that the changes made fit the business needs of the State and Field Offices. The following information lists specific detail that must accompany your response and confirmation. The items are required by the Configuration Management process in order to get the changes implemented to the Certification and deployed to the Production environments. The items that need to be listed in the email response are:

- What county and State have been reviewed
- State that all changes made have been tested and are acceptable
- State that all changes made should be moved to the Certification and Production Environments
- In the email, please refer to RFA number "A-11012" and RFC number "RFC-11108"

The above listed items are a requirement for the User Acceptance letters used in the Configuration Management implementation process.

Once received, the Enterprise Technologies Branch (ETB) in the St. Louis DCIO office will create a request package for the implementation of the changes to be placed into both the Certification and Production environments.

There are many types of configuration implementation process. Updates to the public eligibility website will utilize the CERT\HOLD\PROD request type for Configuration Management implementation. This request type indicates changes will be implemented into the Certification (CERT) environment first, followed by Production (PROD) in either of the next 2 regularly scheduled Production releases. The implementation into the Certification environment can take up to one week. Additionally, a one or two week gap between implementation to the Certification and Production environment could occur.

Once the changes are placed into the Certification environment, the Enterprise Technologies Branch will be responsible for reviewing/confirming the changes in the Certification environment match those within the Test environment that was approved. These can be viewed at the following link:

http://eligibility.cert.sc.egov.usda.gov

The user's e-authentication identification will be utilized to access the site.

After review of the Certification environment has been completed and approved, the Production implementation will take place. The implementation will be completed during the next available, normal Production release (typically the following Wednesday, depending on the length of time it takes the requestor to reply to the email notification). If the Certification environment review fails, the Enterprise Technologies Branch will acquire the correct file structure from the approved Test environment and request the local Configuration Management team re-deploy the correctly modified files.

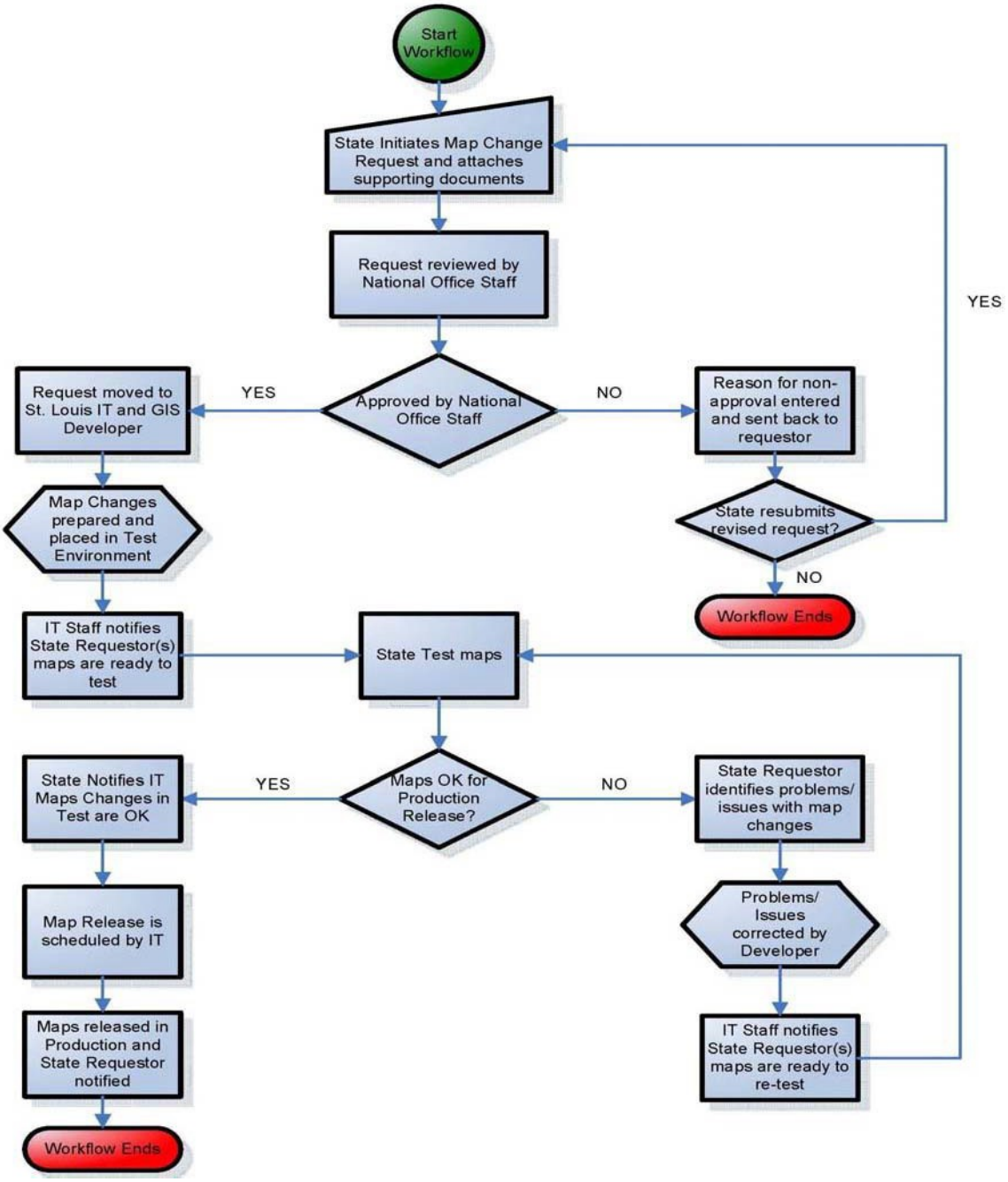
The Production environment link is as follows:

http://eligibility.sc.egov.usda.gov

***Extraordinary Circumstances/Special Request Process**

In the event that there are extenuating circumstances that require the updates be placed to the Production environment more timely than the typical flow, a special request process can be utilized. This request must be justified based on Field Office\State Office need. To submit a special request for an expedited implementation, the State Director must provide a justification as to the circumstances requiring an implementation timeline that requires attention over the typical flow of timelines outlined in Type 1, 2 and 3 above. The justification must indicate specific reasons for an expedited implementation and must confirm the need is beyond the control of the State and is not due to the lack of planning the change or otherwise an error on the part of the State. This justification will accompany the transmittal and modificationsrequest.

ATTACHMENT 5-F
ELIGIBILITY SYSTEM MODIFICATION WORKFLOW



CHAPTER 6: UNDERWRITING THE LOAN

SECTION 1: OVERVIEW OF THE UNDERWRITING PROCESS

6.1 INTRODUCTION

The underwriting process brings together the applicant eligibility requirements discussed in Chapter 4 and the property requirements discussed in Chapter 5 with the loan and subsidy requirements that are discussed in detail in this chapter. By putting all of this information together, the Loan Originator can determine the applicant's repayment ability, whether a loan can be approved, and the amount of the loan. This chapter is structured as follows:

- Section 1 reviews the concept of underwriting;
- Section 2 describes loan terms and requirements;
- Section 3 provides policies and procedures for determining whether the applicant is eligible for payment subsidy and the amount of the subsidy; and
- Section 4 provides policies and procedures for underwriting a loan for a specific property and preparing the loan approval recommendation.

6.2 WHAT IS UNDERWRITING?

Through the underwriting process, the Loan Originator evaluates an applicant's circumstances and the condition and value of the property to determine whether making a particular loan is a prudent use of funds. Exhibit 6-1 summarizes key underwriting decisions.

Underwriting has both objective and subjective elements. For example, income eligibility is an objective factor -- if the applicant's income exceeds program income limits, the applicant cannot receive a program loan. On the other hand, analyzing an applicant's credit history and estimating the value of the property both involve some degree of judgment. The underwriter's challenge is to make both objective and subjective decisions in a fair and impartial manner for all applicants.

The Agency's underwriting standards and procedures are similar in many respects to those used by private lenders. However, because the Agency's mission, in part, is to serve home buyers who are unable to obtain private credit, the underwriting process differs in 4 key respects:

- The Agency's criteria for an acceptable credit history are somewhat less stringent than those used by private lenders;
- Agency loan-to-value requirements enable many applicants to become homeowners with little or no down payment;
- In most circumstances, the Agency has the ability to offer subsidies that enhance an applicant's ability to repay the loan; and
- The Agency conducts quality checks on new loans as well as on withdrawn and rejected applications to confirm that the Loan Originator complied with the underwriting standards and procedures. Refer to Attachment 6-B for guidance on monitoring requirements.

Exhibit 6-1

Key Underwriting Decisions

Does the Applicant Meet Program Requirements?

The applicant must:

- Have the legal capacity to enter into a loan agreement;
- Have the financial resources to repay the loan;
- Have an acceptable credit history; and
- Meet the specific requirements for participation in the program, such as eligibility based on income and citizenship status.
- A first-time homebuyer must complete a homeownership education course prior to entering into a contract to purchase or construct a home for maximum benefit (or shortly thereafter).

Does the Property Meet Program Requirements?

The property must:

- Meet Agency standards regarding location and housing quality;
- Meet the Agency's environmental review requirements;
- Not have legal hindrances to the borrower's ownership of the property; and
- Have sufficient value to protect the Agency's financial investment in the property.

Does "The Deal" Work?

- Can the Agency offer loan terms and conditions that enable the applicant to afford the loan?
- Is the applicant willing and able to meet the terms and conditions the Agency can offer?

6.3 USING UNIFI TO FACILITATEUNDERWRITING

UniFi automatically completes most of the underwriting calculations discussed in this chapter. However, the Loan Originator must understand how the calculations are made, in order to enter the correct information into the system and, more importantly, to be able to explain the results to applicants.

SECTION 2: LOAN TERMS AND REQUIREMENTS

6.4 ELIGIBLE LOAN PURPOSES AND USES [7 CFR 3550.52]

The Section 502 program is intended to help those who do not currently own adequate housing buy, build, relocate, rehabilitate, or improve a property to use as a permanent residence. All improvements must be on land that, after closing, is part of the security property. Eligible costs are listed below.

A. Site-Related Costs

Eligible site-related costs include:

- Providing a minimum adequate site, as described in Section 1 of Chapter 5, if the applicant does not already own an adequate site;
- Providing adequate utilities, including adequate and safe water supply and wastewater disposal facilities; and reasonable connection fees, assessments, or the pro rata installment costs for utilities such as water, sewer, electricity and gas; and
- Site preparation, including grading, foundation plantings, seeding or sodding, trees, walks, yard fences, and driveways.

B. Dwelling-Related Costs

In addition to costs for acquisition, construction, repairs, or the cost of relocating a dwelling, eligible dwelling-related costs include:

- Special design features or equipment necessary because of a physical disability of a member of the applicant's household;
- Approved energy saving materials, equipment, or construction methods (heating systems must use a type of fuel that is commonly used, economical, and dependably available);
- Storm cellars and similar protective structures; and
- Purchase and installation of essential equipment including range, refrigerator, clothes washer and/or dryer, if these items are normally sold with dwellings in the area, and if the purchase of these items is not the primary purpose of the loan.

C. Fees and Related Costs

Other eligible costs include:

- Reimbursement for certain items paid by the borrower outside of closing (i.e. earnest money deposit, inspection fees required by the Agency, and the first year's hazard insurance premium); legal fees; architectural and engineering services; costs of title clearance and loan closing services; the Agency-approved appraisal fee; surveying, environmental and tax service services; personal liability insurance fees under Mutual Self-Help Housing; and other incidental expenses approved by the Loan Approval Official. Commissions, finders' fees, homeowner association fees, placement fees, and administrative fees charged to the buyer by the real estate agent are **not** eligible costs;

- Fees for acceptable homeownership education under 7 CFR 3550.11 provided the fee does not exceed the reasonable costs determined by the State Director. Fees may be added to the loan amount in excess of the area loan limit and the appraised value of the house in cases where the borrower requests it be included in the loan;

- The buyer's portion of real estate taxes that the applicant must pay at the time of closing including delinquent taxes on a property owned by the applicant;

- Real estate taxes that become due during the construction period on houses to be built;

- The borrower's share of Social Security taxes and similar taxes for labor hired by the borrower in connection with making the planned improvements;

- Establishment of escrow accounts, including the initial escrow deposit, for the payment of taxes and property insurance premiums;

- Payment of recapture amounts deferred by a former borrower;

- Costs associated with implementation of mitigation measures to ensure environmental compliance;

- For leveraged loans, lender charges and reasonable fees related to obtaining the non-Agency loan; and

- Fees to public agencies and private nonprofit organizations that are tax exempt under the Internal Revenue Code for the packaging of loan applications. The charges must be reasonable considering the services provided and the cost of similar services in the same or a similar rural area. The fee cannot exceed the amount listed in Attachment 3-A and the package must comply with the requirements outlined in the aforementioned attachment.

D. Loan Restrictions [7 CFR 3550.52(e)]

Agency loans cannot be used to finance properties that include in-ground swimming pools. It is not acceptable to remove a pool after closing to meet this requirement.

Agency funds cannot be used to purchase or improve structures designed for income-producing purposes or income-producing land. Home-based operations such as child care, product sales, or craft production that do not require specific features are not restricted.

6.5 REFINANCING

In general, Agency funds should not be used to refinance existing debt and are **never** to be used to refinance existing Agency debt when a property is sold to a new Agency borrower. In such cases, an assumption on new rates and terms transfers the debt to the new owner. However, refinancing is permitted in limited circumstances.

A. Refinancing Agency Debt [7 CFR 3550.52(c)]

Borrowers with Agency nonprogram loans (nonprogram assumptions or credit sales) or initial Section 502 program loans with a term less than 25 years are not eligible for payment subsidy. Borrowers with these types of loans may be permitted to refinance if the borrower is eligible to receive a program loan, the property is program-eligible, and the borrower is in danger of losing the property due to circumstances beyond the borrower's control.

B. Refinancing Non-Agency Debt [7 CFR3550.52(b)]

1. Situations in Which Refinancing is Permissible

Refinancing of non-Agency debt, except for debt on manufactured homes, is permissible in 3 circumstances.

- **Refinancing for an existing home at risk of foreclosure.** An applicant who owns a home but is clearly unable to continue making payments and risks losing the home through foreclosure may be eligible for Agency refinancing if the risk is due to circumstances beyond the applicant's control. Risk of foreclosure doesn't necessarily mean that the applicant's mortgage is currently delinquent; it means that foreclosure is a highly likely eventuality because the mortgage payments are no longer sustainable due to circumstances beyond the applicant's control.

- **Refinancing for an existing home in need of repairs.** Debt on an existing home may be refinanced if the home is in need of repairs totaling $5,000 or more to correct major deficiencies and make the dwelling decent, safe, and sanitary; and refinancing is necessary for the borrower to show repayment ability. In such cases the owner need not be at risk of losing the property through foreclosure.

- **Refinancing for a site without a dwelling.** Agency funds may be used to refinance non-Agency debt on a building site without a dwelling if the debt is for the sole purpose of purchasing the site, the applicant is unable to pay the debt, and the applicant is otherwise unable to acquire decent, safe, and sanitary housing. The site must meet the conditions described in Section 1 of Chapter 5. The Agency loan must include adequate funds to construct a dwelling on the site that conforms to the requirements of Section 2 of Chapter 5, and the applicant must occupy the property once it is constructed.

In any of these circumstances, a non-Agency loan, including a Single Family Housing Guaranteed Loan, can be refinanced only if the Agency will have adequate security.

2. Eligible Debt

In general, Agency funds can be used to refinance only debt that was incurred for eligible purposes, as described in Paragraph 6.4. For applicants who are in danger of foreclosure, Agency funds also may be used to repay a protective advance made by a mortgagee for costs related to the delinquency, such as accrued interest, insurance premiums, real estate tax advances, or preliminary foreclosure costs.

The primary debt to be refinanced must be secured with a lien against the security property. For existing dwellings, but not for sites without a dwelling, short-term or unsecured debts also may be included in the refinancing if refinancing of these debts is necessary to establish sound repayment ability, the debts were incurred for purposes that are eligible under Section 502, and they do not represent a significant portion of the loan.

3. Timing of the Debt

In general, the debt to be refinanced must have been incurred before the application was filed. Costs incurred after the application date, but before loan closing, may be refinanced if: (1) they are incurred for legal fees or other technical services related to the property, or for materials, construction or site acquisition; (2) the applicant is unable to pay the costs from personal resources or to obtain credit from other sources; and (3) failure to authorize the use of Agency funds to pay such costs would jeopardize the applicant's ability to repay the loan. The applicant should consult with the Loan Originator before incurring such expenses.

4. Verification of Debt

To verify that the debt to be refinanced meets these requirements, the Loan Originator should send Form RD 3550-30, Verification of Debt Proposed for Refinancing, to each creditor whose debt is proposed for refinancing. The form, which asks for account information as well as a copy of the original debt and security instrument, should be accompanied by a preaddressed, postage-paid envelope (sufficient enough to cover the cost of and large enough to hold the multiple-paged instruments) and Form RD 3550-1, Authorization to Release Information, which authorized the respondent to release this information.

6.6 MAXIMUM LOAN AMOUNT [7 CFR 3550.63]

Unless an exception is granted, a loan may not exceed the area loan limit. The loan may exceed the area loan limit in an amount necessary to cover the Agency-approved appraisal fee, the tax service fee, homeownership education fee, and any required contribution to an escrow account for taxes and insurance (excluding the first year insurance premium). All area loan limits are available online at: https://www.rd.usda.gov/files/RD-SFHAreaLoanLimitMap.pdf

Effects of the Area Loan Limit

Determining if a property is modest prior to ordering an appraisal. Market value is generally reflective of the price for a property agreed upon between a willing and informed buyer and a willing and informed seller and/or contractor under usual and ordinary circumstances when the property is exposed for sale on the open market with reasonable time allowed to find a purchaser. Since the modest determination must be made when the purchase agreement or construction package is submitted, if the property is deemed modest but the appraised value subsequently comes in higher than the area loan limit - the property will still be considered modest.

Maximum Loan Amount. The total amount of the Agency loan, loans from other sources, or the applicant's own funds, including but not limited to the value of the site, cannot exceed the applicable area loan limit.

Costs of Appraisal or Closing. The loan an applicant receives must not exceed the area loan limit unless the applicant chooses to finance the appraisal fee, tax service fee, homeownership education fee, or the initial contribution to fund the escrow account, in which case the loan can exceed the area loan limit by the cost of these items.

A. Granting Exceptions

Exceptions to the area loan limit may be granted on a case-by-case basis when the current limit is insufficient to provide adequate housing. Exceptions may be granted to accommodate the specific needs of an applicant, for example, to serve exceptionally large households or to provide reasonable accommodation for a household member with a disability. Requests for exceptions may be approved by the State Director if the cost of the property will not exceed $5,000.

To request an exception, the Loan Originator must fully document the need for the exception. If approval is granted, the Loan Originator should follow UniFi procedures to override the maximum mortgage limits.

Exceptions also can be granted for subsequent loans that may cause the entire indebtedness to exceed the area loan limit only if necessary to protect the Government's interests. The State Director can authorize subsequent loans that exceed the area loan limits to accommodate the cost of necessary repairs, reasonable closing costs, and allowable excess costs (including the appraisal fee, tax service fee, homeownership education fee, and initial deposit to fund the escrow account), without authorization from the Deputy Administrator, Single Family Housing, even if the increase exceeds $5,000.

B. Special Situations

To further ensure that only modest housing is financed, the maximum loan amount will be limited in the following situations:

1. Housing Other than Self-Help

- If the applicant owns the building site free and clear or if an existing non- Agency debt on the site will not be refinanced with Agency funds, the market value of the lot will be deducted from the area loan limit.

- If Agency funds will be used to refinance non-Agency debt on the building site, the equity (market value minus the debt owed against the site) will be deducted from the area loan limit.

- When the applicant is purchasing a site below the market value, the difference between the market value and the sales price will be deducted from the area loan limit.

- When an applicant is receiving a housing grant or other form of affordable housing assistance for eligible loan purposes other than closing costs, the amount of such grants and other affordable housing assistance will be deducted from the area loan limit.

2. Self-Help Housing

The maximum loan amount for self-help housing will be determined by adding the total of the market value of the lot (including reasonable and typical costs of site development), the cost of construction, and the value of sweat equity. The total of these factors cannot exceed the area loan limit for the area.

6.7 LOAN-TO-VALUE (LTV) RATIO [7CFR3550.63(b)]

The LTV ratio is the relationship between the amount to be financed, including all leveraged loans and grants (where a lien will be taken), and the market value of the security property. The value of the property is determined using the appraisal procedures described in Section 5 of Chapter **5.** A loan may exceed the LTV limitations discussed in Paragraphs 6.7 A. and B. to allow the borrower to finance certain allowable excess costs. For any Agency loan, the amount that can be financed in excess of the allowable LTV includes the Agency-approved appraisal fee, the tax service fee, homeownership education fee, and the initial contribution to the escrow account.

Allowable Excess Costs

- Appraisal fee
- Tax service fee
- Homeownership education fee
- Initial contribution to escrow

A. Loans for Existing Dwellings (100% LTV)

For existing dwellings, the LTV limitation for a Section 502 loan, plus any other liens on the security property, is 100 percent of value plus allowable excess costs.

B. Loans for New Dwellings (90-100% LTV)

For loans on new dwellings, the permitted LTV ratio depends upon whether the applicant provides documentation that the construction quality is acceptable to the Agency. If construction that meets the Agency standards can be documented, the LTV limitation is 100 percent of value plus allowable excess costs.

If construction quality is not adequately documented, loans for new dwellings are limited to 90 percent of the market value plus allowable excess costs.

Example - Maximum Loan Based on Loan to Value Ratios

$50,000 Appraised Value
$51,740 Total Costs Including:

$49,500	Purchase Price
$ 340	Appraisal and Tax servicing
$ 1,500	Closing Costs
$ 400	Costs to Establish Escrow

If the allowable LTV is 100%, the maximum loan is $50,740 (the appraised value plus allowable excess costs). $1,000 of the closing costs must be paid by the borrower in cash.

If the allowable LTV is 90%, the maximum loan is $45,740 (90% of the appraised value plus allowable excess costs). $6,000 must be paid by the borrower in cash.

The following are acceptable documentation of construction quality:

- The Agency has issued a conditional commitment and inspected the property, as described in Section 1 of Chapter 9.

- The dwelling is covered by an approved 10-year warranty plan, as described in RD Instruction 1924-A, and there is a certificate of occupancy when issued by the local governing agency. In areas where there is no local authority to issue a certificate of occupancy or similar document, the State Office will provide appropriate guidelines for what will be considered acceptable documentation of a dwelling's or unit's livable condition.

- The loan will be closed prior to the start of construction so that the Agency can monitor the construction following the procedures described in Section 6 of Chapter 5.

- The new dwelling is a manufactured home that meets the requirements set forth in Section 3 of Chapter 9.

- Applicant provides a complete set of plans and specifications and, to demonstrate that the construction was properly inspected, copies of all construction-phase reports prepared by a licensed construction inspector. In the case of properties inspected by the Federal Housing Administration (FHA) or Veterans Affairs (VA), a certification that the dwelling was built in accordance with approved plans and specification may be submitted in lieu of construction-phase reports.

C. Subsequent Loans for Necessary Repairs

If necessary to protect the Government's security interest, the Agency may make a subsequent loan that causes the total indebtedness to exceed the market value of the property and/or the area loan limit. The excess amount cannot exceed the cost of the necessary repairs, reasonable closing costs, and allowable excess costs. The Loan Originator should review the status of the borrower's account in MortgageServ and coordinate with the National Financial and Accounting Operations Center (NFAOC) as necessary.

D. Subsequent Loans for Closing Costs Only

When the Agency makes a subsequent loan to a program borrower for closing costs only at the time of the sale of an REO property or a property transfer and assumption, total indebtedness may exceed the market value and/or the area loan limit by up to 1 percent, plus allowable excess costs.

E. Refinanced Loan for Existing Agency Borrower

When the Agency refinances an existing Agency loan, the loan may exceed the market value of the property and/or the area loan limit only as necessary to cover the borrower's outstanding indebtedness, closing costs associated with the new loan, and allowable excess costs.

F. Affordable Housing Products

In those cases where participation may include a soft, silent or forgivable subordinate affordable housing product, which includes funding for purposes that are not listed in the eligible loan purposes (Paragraph 6.4) but are consistent with our objectives in affordable housing, the loan to value ratio may exceed the market value by 5 percent or by the amount of those costs, whichever is lower. The sources of the additional funding should define the purpose. Examples include, but are not limited to, homeownership education, credit counseling, and gap funding.

Only affordable housing products that result in a lien against the property need to be considered in evaluating the loan to value ratio. Grants and similar funding that do not result in a lien and are not required to be paid back should not be considered in evaluating the loan to value ratio.

6.8 REPAYMENT PERIODS [7 CFR 3550.67]

Loans must be scheduled for repayment over a period that does not exceed the useful life of the property. The standard maximum loan term for most Section 502 loans is 33 years.

A. Exceptions to the Standard 33-Year Maximum Term

Repayment may be scheduled over a 38-year term for:

- Initial loans, or subsequent loans made in conjunction with an assumption, if the applicant's adjusted income does not exceed 60 percent of the applicable area median income and the longer term is necessary to show repayment ability; and

- Subsequent loans **not** made in conjunction with an assumption, if the borrower's initial loan was for a period of 38 years, the borrower's adjusted income at the time the subsequent loan is approved does not exceed 60 percent of the applicable area median income, and the longer term is necessary to show repayment ability.

The repayment period is limited to a maximum of 10 years for loans under $2,500 and for unsecured loans as described in Paragraph 5.12 A. Manufactured homes are eligible for a maximum loan term of 30 years.

B. Effect of Repayment Period on Payment Subsidy

Loans may be approved for less than the maximum period. However, before approving a loan with a payment term that is less than the maximum period, the Loan Originator should consider the effect this may have on any payment subsidy for which the applicant may be eligible. Because a shorter loan term could require the Agency to contribute a higher payment subsidy, an applicant with an initial loan term of less than 25 years cannot obtain payment subsidy. An applicant may receive payment subsidy on a secured subsequent loan with a term of less than 25 years if the initial loan had a term of 25 years or more. Section 3 of this chapter provides additional information about payment subsidies.

6.9 INTEREST RATES [7 CFR 3550.66]

A. Note Rates

The note rate is the interest rate shown in the promissory note. Exhibit B of RD Instruction 440.1 provides current interest rates for program and nonprogram loans. For program loans, the note rate used for the promissory note must be the lower of the Rural Housing (RH) 502 very low or low-income limit interest rates in effect at loan approval and obligation of funds (or the moderate-income limit in effect at loan closing).

For non-program loans, the non-program rate in effect at loan approval must be used for the promissory note. For program and non-program loans, the date the loan was approved must be the same date the loan was obligated in MortgageServ. If the dates differ, the date of obligation will be used when determining the interest rate; not the date of approval.

B. Subsidized Rate

As described in Section 3, borrowers who qualify may receive payment subsidies based upon a lower interest rate. The subsidized rate does not affect the promissory note. Instead, a separate agreement is executed annually (or more often if the subsidy amount changes) to document the amount of payment subsidy provided.

Example - Effect of Interest Rate and Repayment Period on Monthly Payments

Loan Amount	Loan Term	Monthly Payment
$50,000 @ 7%	33 years	$324.05
$50,000 @ 7%	38 years	$313.79
$50,000 @ 1%	33 years	$148.29
$50,000 @ 1%	38 years	$131.84

6.10 USE OF ASSETS [7 CFR3550.64]

A. Asset Limits

Applicants with assets in excess of established limits must use those assets for a down payment or other costs associated with the purchase of the property. Section 2 of Chapter 4 discusses assets in detail. Applicants may choose to use assets that fall below the established limits toward the purchase, even though they are not required to do so.

- Nonelderly applicants must use nonretirement assets in excess of $15,000 toward the purchase of the property.

- Elderly applicants must use nonretirement assets in excess of $20,000 toward the purchase of the property.

B. Eligible Uses of Assets

Eligible uses for excess assets or assets the applicant has elected to contribute include making payments to:

- Reduce the principal balance;
- Pay architectural, engineering, inspection, or testing fees related to new construction or repairs;
- Establish the escrow account for taxes and insurance;
- Pay closing costs and related fees;
- Reduce non-housing debts;
- Contribution to a retirement asset; or
- Purchases not considered a net family asset (Exhibit 4-3).

Required Down Payment

If an applicant was issued a Certificate of Eligibility that listed a required down payment and they subsequently spend or dispose of those funds for ineligible loan purposes and now no longer have assets sufficient to cover the required down payment, the Loan Approval Official will re-evaluate eligibility at the time of approval or denial. If the applicant is no longer eligible, the reasons for denial will include Attachment 1-B with appeal rights.

C. Ineligible Uses of Assets

If an applicant has excess assets, those assets cannot be used for purposes other than those listed in Paragraph 6.10 B.

SECTION 3: PAYMENT SUBSIDIES [7 CFR 3550.68]

6.11 AN OVERVIEW OF PAYMENT SUBSIDIES

The Agency uses payment subsidies to enhance an applicant's repayment ability for Section 502 loans. UniFi calculates the applicant's payment subsidy. The sample calculations provided in this section are intended to help the Loan Originator understand how the calculation works so that it can be explained to the applicant.

A. Three Types of Subsidy

1. Interest Credit

A borrower who initially received subsidy in the form of interest credit can continue to do so as long as the borrower remains eligible and continuously receives interest credit assistance. Subsequent loans to these borrowers should be subsidized with interest credit. Paragraph 6.13 describes the method for calculating subsidies using the interest credit method.

2. Payment Assistance Method 1

A borrower currently receiving payment assistance using payment assistance method 1 will continue to receive it for the initial loan as the borrower is eligible for payment assistance method 1. However, if a borrower receiving payment assistance method 1 receives a subsequent loan, payment assistance method 2 will be used to calculate the subsidy for the initial loan and subsequent loan. Paragraph 6.12 B describes the method for calculating subsidies using payment assistance method 1.

3. Payment Assistance Method 2

All other eligible applicants will receive payment assistance method 2. This includes: applicants who receive new initial loans; borrowers obtaining subsequent loans who qualify for payment subsidy, but who are not currently receiving interest credit or payment assistance method 1; and applicants who assume loans under new rates and terms. Borrowers who cease to receive interest credit or payment assistance method 1 for 6 months or more will receive payment assistance method 2 if they subsequently begin to receive payment subsidies. Paragraph 6.12 A describes the method for calculating payment assistance method 2.

B. Applicant Eligibility

1. Income Eligibility

Applicants who obtain loans on nonprogram terms are not eligible for payment subsidies. To be eligible for an initial loan at the time of origination, an applicant must be income-eligible for the Section 502 loan -- that is, have adjusted income that does not exceed the applicable low-income limit at the time of loan approval and the applicable moderate-income limit at the time of loan closing. Initial approval of payment subsidy for borrowers who become eligible after loan closing is the responsibility of NFAOC. A borrower who is receiving payment subsidy can continue to receive it, even if their income exceeds the moderate income limit, as long as their subsidized rate does not exceed the note rate.

2. Occupancy Requirement

To be eligible to receive a payment subsidy, the applicant must personally occupy the dwelling, unless during the term of the loan the Agency determines that the dwelling is uninhabitable or that the borrower may be absent temporarily from the property for reasons acceptable to the Agency, such as seasonal or migratory employment, military call-ups, or hospitalization.

C. Loan Requirements

1. Loan Term

For an applicant to be eligible for a payment subsidy, initial loans and subsequent loans made in conjunction with a new rates and terms assumption must have a term of at least 25 years. Borrowers can receive a payment subsidy for a subsequent loan **not** made in conjunction with an assumption with a term of less than 25 years, if the initial loan had a term of at least 25 years.

2. Type of Loan

To receive payment subsidy, the loan must be made on program terms and must be secured by a mortgage on the property.

D. Annual and Interim Reviews

Subsidy agreements are effective for a period not exceeding 24 months. For agreements that exceed 12 months, an annual review is conducted by NFAOC to determine whether the borrower is eligible to continue to receive payment subsidies. Annual and interim reviews of borrowers receiving payment subsidies are the responsibility of NFAOC. Borrowers who receive payment subsidies must notify the Agency if any adult household member changes or obtains employment, the household composition changes, or if income increases by more than 10 percent. Borrowers may report other changes that would result in increased payment subsidies. The review period may be different in certain circumstances. Borrowers receiving payment assistance via method 1 with adjusted incomes above 80 percent of the applicable adjusted median income will pay the Equivalent Interest Rate (EIR) for the appropriate income contained in Exhibit 6-4.

1. Self-Employed Applicants

For a self-employed applicant, the initial payment subsidy agreement will run from the effective date to 3 months after the end of the applicant's business fiscal year, but not more than a 12-month period. This will allow subsequent agreements to coincide with the applicant's business fiscal year, with a 3-month overlap, to provide sufficient time for the applicant to supply verification of the previous year's income.

2. Unemployed Applicants

For an applicant receiving unemployment benefits, the agreement will be effective for the period during which the applicant will receive unemployment benefits, or, if the period is unknown, no longer than 6 months. The expiration date of the agreement will be established by the Loan Originator.

3. Annual Payment Borrowers

For an applicant currently paying an annual installment who receives a subsequent loan, the initial payment subsidy agreement, including the subsequent loan, will be in effect until the next January 1st.

E. Recapture Requirement

Borrowers are required to repay all or a portion of the payment subsidy received over the life of the loan when the title to the property transfers or when the borrower ceases to meet the occupancy requirement described in Paragraph 6.11 B. 2. The borrower must sign Form RD 3550-12, Subsidy Repayment Agreement, at the time of loan closing for existing properties, when a construction loan is converted to a permanent loan, or whenever the borrower qualifies for payment subsidy for the first time.

6.12 CALCULATING PAYMENT ASSISTANCE

A. Payment Assistance Method 2

The amount of payment assistance granted is the lesser of the difference between:

- The annualized promissory note installments for the combined RHS loan and eligible leveraged loans plus the cost of taxes and insurance less 24 percent of the borrower's adjusted income, or

- The annualized promissory note installment for the RHS loan less amount the borrower would pay if the loan were amortized at an interest rate of 1 percent.

Borrowers receiving payment assistance method 2 must pay the greater of:

- A payment to RHS based on 24 percent of their adjusted annual income less the amortized payment for the eligible leveraged loan less the cost of taxes and insurance; or

- A payment to RHS based on an interest rate of 1 percent plus the amortized payment for the eligible leveraged loan plus the cost of taxes and insurance.

An eligible leveraged loan is a loan with payments amortized over a period of not less than 30 years and an interest rate that does not exceed 3 percent.

B. Payment Assistance Method 1

The amount of payment assistance granted is the difference between the installment due at the promissory note rate and the amount the borrower must pay based upon income. Borrowers receiving payment assistance method 1 must pay the **greater of**:

- A floor payment calculated as a percentage of adjusted income, less the cost of taxes and insurance; or
- The loan payment amortized at the applicable EIR.

Borrowers who receive leveraged loans are not subject to floor payments. Exhibit 6-3 provides a sample payment assistance method 1 calculation.

1. Establishing the Floor Payment

The floor payment is a minimum percentage of adjusted income that the borrower must pay for Principal, Interest, Taxes, and Insurance (PITI).

- Very low-income borrowers must pay a minimum of 22 percent.
- Low-income borrowers with adjusted incomes below 65 percent of the applicable adjusted median income must pay a minimum of 24 percent.

Exhibit 6-2

Sample Payment Assistance Method 2 Calculation

The Jones family wishes to purchase a home for $90,000. They have been approved for a $60,000 loan from RHS and a $30,000 Affordable Leveraged Loan.

	Principal Amount	Payment Period	Note Rate
RHS Loan	$60,000	33 years	6.0%
Affordable Leveraged Loan	$30,000	30 years	3.0%

The family's adjusted income is $23,000; monthly taxes and insurance are estimated at $150/month.

(1) Calculate the combined Annual Payment at the Note Rate plus Taxes and Insurance less 24% of the Adjusted Annual Income (AAI).

$349	RHS Loan ($60,000 @ 6% for 33years)
$127	Affordable Leveraged Loan ($30,000 @ 3% for 30 years)
$150	Estimated Monthly Taxes and Insurance(T&I)
$626	Combined Principal, Interest, Taxes and Insurance (PITI at Note Rate)
-$460	AAI ($23,000 X 24%)
$166	Total Monthly Subsidy

(2) Calculate the annualized RHS note installment less the annualized 1% installment.

$349	RHS Monthly Note Installment
-$178	RHS 1% Payment ($60,000 @ 1% for 33years)
$171	Total Monthly Subsidy

PAYMENT SUBSIDY WILL BE THE LESSER OF (1) OR (2).

$166	Monthly Subsidy

Calculate Monthly Installment (P&I)

$460	24% of AAI
-$127	Affordable Leverage
-$150	T&I
$183	Total Monthly P&I Installment

Exhibit 6-3

Sample Payment Assistance Method 1 Calculation

The Jones family has received payment assistance method 1 on their initial loan since it was approved. They have recently been approved for a subsequent loan to make needed repairs.

The following financial information is needed to calculate the payment assistance.

	Principal Amount	Repayment Period	Note Rate
Initial Loan	$60,000	33 Years	7%
Subsequent Loan	$30,000	33 Years	6%

The family's Adjusted Annual Income is $23,000. The Adjusted Median Income is $36,500.

$23,000	Adjusted income
63%	Percent of adjusted median ($23,000 ÷$36,500)
$150	Monthly taxes and insurance

(1) Calculate the Payment at the Note Rate

$389	Initial Loan payment at the note rate (amortized amount for $60,000 @ 7% for 33 years)
$174	Subsequent Loan payment at the note rate (amortized amount for $30,000 @ 6 % for 33 years)
$563	Total

(2) Calculate the Floor Payment for PI*

24% Floor payment percentage for applicant @ 63% of median income

$460	Floor payment for PITI* ($23,000 ÷ 12 months x 0.24)
$310	Floor payment for PI* ($460 - $150 for taxes and insurance)

(3) Calculate the Payment at the EIR*

4% EIR* for applicant at 63% of median

$273	Initial Loan payment at the EIR (amortized amount for $60,000 @ 4% for 33 years)
$137	Subsequent Loan payment at the EIR (amortized amount for $30,000 @ 4% for 33 years)
$410	Total Payment at EIR

(4) Compute Monthly Payment Assistance

$563	Payment at the note rate (combine initial and subsequent loans)
-$410	Required payment is the greater of (2) or(3)
$153	Monthly payment assistance

* PI =	Principal and Interest.
PITI =	Principal, Interest, Taxes, and Insurance
EIR =	Equivalent Interest Rate

Low-income borrowers with adjusted incomes between 65 and 80 percent of the applicable adjusted median income must pay a minimum of 26 percent.

2. Calculating the Payment at the EIR

The EIR is determined by comparing the applicant's adjusted income to the applicable adjusted median income for the area in which the security property is located. The payment at the EIR is calculated by amortizing the loan using the applicant's loan amount, the term of the loan, and the EIR for which the applicant qualifies. Exhibit 6-4 provides the EIRs to be used.

Exhibit 6-4

Equivalent Interest Rates

Use the equivalent interest rate for the income range applicable to the applicant's adjusted income.

Adjusted Median Income Range	Equivalent Interest Rate*
0%-50%	1.0%
50.01%-55%	2.0%
55.01%-60%	3.0%
60.01%-65%	4.0%
65.01%-70%	5.0%
70.01%-75%	6.0%
75.01%-80%	6.5%
80.01%-90%	7.5%
90.01-100%	8.5%
100.01%-110%	9.0%
110.01%-greater	9.5%

* EIR can never exceed the note rate.

6.13 CALCULATING INTEREST CREDIT

The amount of interest credit granted is the difference between the installment due at the promissory note rate and the amount the borrower must pay.

- 20 percent of adjusted monthly income, less the cost of taxes and insurance; or
- A loan payment reflecting the loan amount amortized at an interest rate of 1 percent.

Exhibit 6-5 provides a sample interest credit calculation.

Exhibit 6-5

Sample Interest Credit Calculation

The Joneses have received an interest credit subsidy on their initial loan since it was approved and have recently been approved for a subsequent loan to make needed repairs. The terms of the 2 loans are as follows:

	Principal Amount	Payment Period	Note Rate
Initial Loan	$60,000	33 years	7.0%
Subsequent Loan	$15,000	33 years	6.5%

The family's adjusted income is $22,000; monthly taxes and insurance are estimated at $90/month.

(1) Calculate the Annual Payment at the Note Rate

$389	Initial Loan (Amortized amount for $60,000 @ 7% for 33years)
$ 92	Subsequent Loan ($15,000 @ 6.5% for 33years)
$481	Total

(2) Calculate the Minimum Payment for Principal and Interest

$367	Minimum amount for PITI* ($22,000 ÷ 12 months x0.20)
$277	Minimum amount for PI* ($367 -$90)

(3) Calculate the Required Payment at 1 Percent

$222	Monthly payment at the subsidized rate ($75,000 @ 1% for 33years)

(4) Compute Monthly Interest Credit

$481	Monthly payment at the note rate
-$277	Required payment is the greater of (2) or (3)
$204	Monthly payment subsidy

* PI = Principal and Interest
PITI = Principal, Interest, Taxes, and Insurance
EIR = Equivalent Interest Rate

SECTION 4: UNDERWRITING A LOAN FOR A SPECIFIC PROPERTY

6.14 APPROVING A SPECIFICPROPERTY

Underwriting for a specific property begins after the applicant has been determined eligible and submits information about the property.

- Applicants who do not currently own the property must submit an option orsales contract. The sales contract must specify whether the purchaser or seller will be paying for the inspections and certifications.

- Applicants who already own the property must submit evidence of ownership as described in Paragraph 5.11, a legal description, and a property survey showing all structures on the site.

If the property appears to be acceptable (refer to Paragraph 5.17 B. for additional guidance), the Loan Originator requests an appraisal of the property. If the property is not acceptable, the Loan Originator must notify the applicant and provide a new Form RD 1944-59, Certificate of Eligibility.

6.15 FUNDS AVAILABLE FORCLOSING

If the applicant must pay for closing costs that cannot be financed, or plans to make a down payment to reduce the loan amount, the Loan Originator must obtain complete copies of the borrower's two most recent consecutive bank statements to ensure that the applicant has sufficient funds to pay the required costs, or can demonstrate that the funds will be available before closing. If additional funds are to be received from an outside source, the Loan Originator must ensure that the applicant has completed Form RD 3550-2, Request for Verification of Gift/Gift Letter, to certify that the additional funds will not need to be repaid.

6.16 CALCULATING THE APPROVABLE LOAN AMOUNT

Once the Loan Originator verifies and enters all applicable applicant information and receives the appraisal, then UniFi can be used to determine whether the applicant appears to qualify for the needed loan amount, and if not, determine whether there are ways to make the loan feasible.

A. Calculating the Approvable Loan at Standard Terms

Once the required information is entered, the worksheet automatically computes the PITI and TD ratios, determines whether the applicant is eligible for a payment subsidy and the amount, and determines whether the applicant can afford the selected property using standard loan terms. If UniFi indicates that the loan can be approved, the Loan Originator should prepare the loan approval package, as described in Paragraph 6.17.

B. Working with Applicants Who Do Not Qualify Using Standard Terms

If the applicant cannot be approved for a loan using standard terms, the Loan Originator should determine whether any of the adjustments described below are possible. If any of the adjustments make the loan feasible, the Loan Originator should prepare the loan approval package, as described in Paragraph 6.17.

1. Possible Applicant Actions To Make A Loan Feasible

The Loan Originator should discuss with the applicant options for enhancing their ability to obtain Agency financing including: (1) identifying additional parties to the note; (2) seeking down payment assistance or other assistance programs to supplement the Agency loan; (3) providing an additional down payment to reduce the principal amount of the loan; (4) seeking a less expensive dwelling; or (5) obtaining leverage funds with terms more favorable than available from the Agency.

2. Possible Agency Actions to Make A Loan Feasible

The Loan Originator should first consider any compensating factors, as described in Paragraph 4.24 A., that have not yet been considered and does not result in multiple risk layering. The Loan Originator should then recompute the loan using a 38 year term provided the applicant's income qualifies for a 38 year loan.

In the case of a subsequent loan, the Agency may authorize reamortization of the initial loan if the borrower cannot reasonably be expected to meet installment payments unless the account is reamortized. The Loan Originator should consult with NFAOC to determine whether reamortization is appropriate.

6.17 APPROVING CREDIT

The results of the underwriting analysis are summarized on UniFi's Eligibility Summary. The Eligibility Summary must be signed, dated, and filed in the applicant case file, and must reflect the verified applicant and property information at the time of loan underwriting.

If the results of the analysis indicate that the applicant's loan is feasible, the Loan Originator should recommend that it be approved. Before forwarding the case file, the Loan Originator should review it to ensure that all documentation required for approval, as listed in Attachment 6-A, is included. The Loan Originator also should reconfirm that the documentation in the case file demonstrates that:

- The applicant is eligible, as described in Chapter 4;
- The property is eligible, as described in Chapter 5; and
- The loan is feasible at approvable loan terms, as described in this chapter.

When the case file is complete, the Loan Originator forwards the case file to the Loan Approval Official for review and decision. Refer to Attachment 6-A for guidance on the documentation required prior to loan approval. The Loan Approval Official is responsible for all underwriting exceptions within their authority (or obtaining higher level authority) and determining loan approval or denial. To ensure adequate separation of duties, the Loan Approval Official must be different than the Loan Originator for the subject application.

If a Loan Approval Official's first year loan delinquency exceeds the national new loan delinquency rate, they are required to use the Underwriting, Pre-Closing, and Compliance Tool (which can be found in SharePoint) as part of their review and decision of Section 502 loans. Housing Program Directors are responsible for monitoring the required use of this tool (as well as new loan delinquencies), and the National Office will monitor use of the tool as well.

ATTACHMENT 6-A

DOCUMENTATION REQUIRED PRIOR TO APPROVING A LOAN

APPLICANT ELIGIBILITY

APPLICATION

RD 410-4, Uniform Residential Loan Application
RD 3550-1, Authorization to Release Information
Attachment 3-J, Checklist of Items to Accompany the Uniform Residential Loan Application

CREDIT HISTORY

Documentation, Do Not Pay portal and MortgageServ's "SSN CROSS REFERENCE" softlink key
Documentation, Tri-Merge Credit Report (The TMCR cannot be more than 9 months old when the underwriting decision is being made.)
RD 410-8, Applicant Reference Letter (if applicable)
RD 1944-60, Landlord's Verification (if applicable)
RD 1944-61, Credit History Worksheet (if applicable)
RD 3550-30, Verification of Debt Proposed for Refinancing (if applicant is seeking the refinancing of existing, non-Agency debt)

INCOME

Four (4) weeks of consecutive paystubs

Oral verification of employment (if applicable)

RD 1910-5, Request for Verification of Employment (if applicable)
RD 1944-62, Request for Verification of Deposit (if applicable)
RD 3550-2, Request for Verification of Gift/Gift Letter (if applicable)
RD 3550-4, Employment and Asset Certification
Documentation, Income Tax Return
Documentation, Documentation of Other Income (verification of assets deposited, public assistance, child support payments, unemployment benefits, pensions and annuities, Social Security award or benefit letter, copies of year end statement for mutual funds or 401K)
Documentation, Documentation of Deductions (child care expenses, medical expenses, educational assistance expense, full-time student status)
RD 1944-4, Certification of Disability or Handicap (if applicable)
Documentation, Separation Agreement (if applicable)
Documentation, Divorce Decree (if applicable)

SETTLEMENT INFORMATION

Loan Estimate (initial and, if applicable, subsequent revisions)
Closing Disclosure
RD 1940-41, Truth in Lending Statement (if applicable - unsecured loan transactions)

OTHER REQUIREMENTS

Documentation, Evidence of Alien Status (if applicable)

PROPERTY ELIGIBILITY

PROPERTY INFORMATION

Sales Contract or RD 3550-34, Option to Purchase Real Property
Metes and Bounds Description
Plot Plan (new construction and major rehabilitation only)

ENVIRONMENTAL INFORMATION

RD Instruction 1970-B, Exhibit D "Environmental Checklist for Categorical Exclusions"
Environmental Report/Environmental Assessment (if necessary, prepared in accordance with RD Instruction 1970-B, Exhibit C "Guide to Applicants for Preparing Environmental Reports for Categorical Exclusions under §1970.54" or RD Instruction 1970-C, Exhibit B "Guide to Applicants for Preparing Environmental Assessments," respectively) (as appropriate)
FEMA's Standard Flood Hazard Determination Form
FEMA's Elevation Certificate (if necessary)
1970-F, Exhibit B, Attachment 2 "Private Party Notice to Applicant/Lender for Floodplain" (if necessary)

APPRAISAL INFORMATION UNLESS THE SUBJECT TO APPRAISAL ALLOWANCE WAS USED

Uniform Residential Appraisal Report
Form 1007, Marshall and Swift Square Foot Appraisal Form (optional)
RD 1922-15, Administrative Appraisal Review for Single Family Housing

CERTIFICATES (for existing housing and already-existing new construction not covered by a 10-year warranty)

Termite Inspection Certificate
Plumbing/Water/ Sewage Certification
Electrical Heating/Cooling Certification

EXISTING HOUSING

Documentation of Whole House Inspection
Contractor's Estimate or Bid (if applicable)

NEW CONSTRUCTION OR REHABILITATION

Drawings and Specifications (for new construction must have RD 1924-25, Plan Certification)
RD 1924-2, Description of Materials
RD 1924-19, Builder's Warranty or Insured 10-Year Home Warranty

ATTACHMENT 6-B

LOAN QUALITYREVIEW

Quality loan underwriting ensures that the Agency properly and prudently uses funds and contributes to reducing the first and second year delinquency rates, when coupled with homeownership education.

I. State Office Monitoring

State Offices must periodically conduct quality checks on new loans, as well as on withdrawn and rejected applications, for each Field Office to confirm that the Loan Approval Official complied with the underwriting standards and procedures. A minimum of one first year loan, one withdrawn, and one rejected application, or five percent of loans in each of these categories (whichever is greater) will be reviewed for each Loan Approval Official at least annually using the questions in item IV. of this attachment. A State Office Summary of these reviews (item III. of this attachment) will be submitted to National Office at SFHDIRECTPROGRAM@usda.gov for the prior fiscal year no later than December 31st.

In addition to these annual reviews, the National Office will generate a list of severely delinquent first and second year loans (loans that were three plus installments behind or in foreclosure, bankruptcy, or moratorium) for State Office review. The list will be generated at least two times (more often if the State's new loan delinquency rate warrants) during the fiscal year. Selected State Offices will conduct these reviews using this attachment. Upon receiving an email notice from the National Office, the State Office will have 30 days to review the selected new loans in-house and then email the results to the National Office at SFHDIRECTPROGRAM@usda.gov.

II. National Office Monitoring

The National Office will hold a teleconference with State Offices to discuss their submitted review results and actions they have or will take to address noted underwriting weaknesses or trends.

III. State Office Summary

Date:_____
State:_____
State's (current) 1st Year Delinquency Rate:_____
State's (current) 2nd Year Delinquency Rate:_____
Number of Loan Approval Officials: _____
Number of Loan Originators: _____

Recommended Reports:

- 24 Report
- Summary of Active MonthlyNew Loans (Hyperion – SFH (rddw)>SFH Direct>Loan Servicing>SFHD New Loans Drilldown – Servicing State)
- UniFi State and Field Office Management Reports

A. Please describe any underwriting and/or post-closing reviews or other oversight activities the State Office has completed in the last year.

_____
_____
_____
_____

B. Please describe issues or trends that were identified through State Office oversight in the last year, and what has been done to resolve them.

_____
_____
_____
_____

C. Please address any issues, trends, or factors you think may be contributing to new loan delinquency (first and second year loans) in your state.

_____
_____
_____
_____

D. Based on the results of the individual file reviews, list any follow up action needed (e.g. training to be provided, action to be taken in an automated system, follow up with NFAOC, etc.) and timeframe for completion. Use a continuation sheet if necessary.

Action Item	Person Responsible	Target Date

IV. State Office Loan Review

Applicant's/Borrower's Name: _____
Account Number(s):_____Status:_____
Reviewer's Name: _____
State:_____
Obligation Date:_____ Closing Date:_____ Conversion Date (construction advances): _____

Loan Approval Official (LAO): _____
LAO's 1st Year Delinquency Rate: _____
Did the LO/LAO ensure Attachment 3-G was fully completed? _____ Yes _____ No

Rejected Applications

1. If the adverse decision was subject to appeal, was the applicant informed of their informal administrative review, mediation, and appeal rights, using HB Letter 15 and HB-1-3550, Attachment 1-B?
   _____ Yes _____ No

2. If the adverse decision was not subject to appeal, was the applicant notified that they may request an informal administrative review using HB Letter 15 and HB-1-3550, Attachment 1-C?
   _____ Yes _____ No

   Reviewer to provide brief narrative on the reason(s) the application was rejected and the appropriateness of the rejection:

   _____
   _____

Withdrawn Applications

1. Did the applicant withdraw the application by writing or calling the Field Office?
   _____ Yes _____ No

2. Was the application withdrawn by the Field Office because of missing information, which was requested in Handbook Letter 11, Request Information?
   _____ Yes _____ No

Reviewer to provide brief narrative on the reason(s) the application was withdrawn and the appropriateness of the withdraw:

_____
_____

When answering the questions below, focus on the documentation at the time of loan closing (or the most recent documentation available for rejected or withdrawn applications).

A. Income Eligibility:
Were all income sources:

1. Properly classified (annual and/or repayment)? _____ Yes _____ No

2. Verified using preferred method? _____ Yes _____ No
If no, identify alternative method(s) used to verify income:

_____

_____

3. Evaluated for stability and dependability? _____ Yes _____ No
Reviewer to provide brief narrative on this issue, including length/stability of employment:

_____

_____

4. Were applicable deductions verified? _____ Yes _____ No

If no, reviewer to provide brief narrative on this issue:

_____

_____

5. Reviewer is to perform their own income calculations (annual, adjusted, and repayment).

	Annual	Adjusted	Repayment
Loan Originator			
Reviewer			
Difference			

a. Are the Loan Originator's income projections within 10 percent of the reviewer's income calculations? _____ Yes _____ No

b. Explain any difference between annual and repayment calculations (e.g. non-taxable income "grossed up" as applicable, different sources of income were used, etc.).

_____

_____

_____

B. Creditworthiness:

1. What was the credit score(s) for the applicant(s)? Applicant: _____
   Co-applicant: _____

2. Did the applicant(s) have more than one credit score? _____ Yes _____ No

   If no, reviewer to provide brief narrative on this issue, including any non-traditional credit verifications that were used:

   _____

   _____

   _____

3. If the applicant's credit score was under 640, was Form RD 1944-61 used to evaluate the TMCR? _____ Yes _____ No _____ NA

4. If the applicant's credit history as reported on the TMCR and third-party verifications indicated unacceptable credit handling:

   i. Were the circumstances properly documented?_____ Yes _____ No _____ NA
   Reviewer to provide brief narrative on this issue below:

   _____

   _____

   _____

   ii. Was an allowable exception approved by the Loan Approval Official?
   _____ Yes _____ No _____ NA

C. Qualifying Ratios:

1. Were all debts reported on the credit report included in the debt-to-income ratios?
_____ Yes _____ No

   If no, which debts were excluded and what kind of documentation was used to support the decision?

   _____

   _____

   _____

2. Based on the reviewer's repayment income calculation as determined above as well as the established and verified factors at the time of loan closing (loan amount, monthly taxes and insurance, liabilities listed on the TMCR, etc.), were the resulting qualifying ratios within the applicable parameters?

   Reviewer's ratio calculations below:

   PITI:_____

   Total Debt:_____

   If no, was a compensating factor properly used and documented? _____ Yes _____ No
   Reviewer to provide brief narrative on this issue below:

   _____

   _____

3. Was an exception approved by the Loan Approving Official or by a higher-level supervisor when required? _____ Yes _____ No _____ NA

   If yes, name of supervisor (if applicable): _____

4. Did the applicant have payment shock? _____ Yes _____ No

   Reviewer calculation below or enter "could not be measured" if applicable:

   Payment shock = (Total proposed principal, interest, taxes, and insurance payment after subsidy / current housing expense excluding utilities) – 1

If payment shock is more than 100%:

a. Were there other risk layers (adverse credit waivers, use of compensating factors, etc.)? _____ Yes _____ No _____ NA

b. Did the Loan Approval Official counsel the applicant about payment shock? _____ Yes _____ No _____ NA

D. Eligible Loan Purposes:
Were Agency funds used for eligible purposes? _____ Yes _____ No
If no, explain:

_____

_____

E. Property Eligibility Requirements:

1. Was the property located in an eligible area per http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do? _____ Yes _____ No

   If a printout from this site is not on file, the reviewer should enter the property address into this site.

2. Was the appropriate environmental analysis completed prior to obligation offunds? _____ Yes _____ No

3. Was there proof of adequate insurance at closing? _____ Yes _____ No

F. Debts vs. Market Value:

Were the total of all debts secured by the property less than or equal to the property's market value as determined by the appraisal, except by allowable excess costs? _____ Yes _____ No

If no, provide explanation below:

G. Post-Closing / Servicing Activity:

1. Has insurance been force-placed after closing? _____ Yes _____ No _____ NA

2. Has the account been approved for a moratorium? _____ Yes _____ No _____ NA

3. If yes, reviewer to provide a brief narrative below (check Imaging for moratorium documentation):

   _____

   _____

4. Has the account been accelerated? _____ Yes _____ No
   If yes, reviewer to provide brief narrative below (e.g. has borrower indicated a reason for the delinquency; how long from closing to acceleration; if account is severely delinquent but not yet accelerated, why; etc.)

   _____

   _____

5. Has the borrower filed for bankruptcy since loan closing? _____ Yes _____ No
   If yes, reviewer to provide brief narrative below (e.g. date of filing; was the Agency's debt reaffirmed; etc.)

   _____

   _____

6. Is the borrower in foreclosure? _____ Yes _____ No
   If yes, reviewer to provide brief narrative below (e.g. date of initial foreclosure action; did the borrower attempted to cure the default; etc.)

   _____

   _____

   _____

State Office Summary Comments (Include State Office observations on the soundness of the loan, necessary or specific action to be taken as a result of your review, such as training needs identified and a plan for providing it):

_____

_____

_____

_____

_____

CHAPTER 7: ESCROW, TAXES, AND INSURANCE

7.1 INTRODUCTION

Besides loan payments, other costs associated with being a homeowner include real estate taxes, hazard and flood insurance premiums, and related costs such as street or water assessments. The Agency has an interest in making sure that these costs are paid in order to protect the property from tax sale or foreclosure, and to make sure that funds will be available to repair the property should it be damaged.

SECTION 1: ESCROW [7 CFR 3550.60]

7.2 OVERVIEW

To ensure that funds are available to pay for the cost of real estate taxes, insurance premiums, and other assessments when they come due, the Agency requires borrowers who receive new loans -- whether initial or subsequent -- to deposit monthly funds to an escrow account in order to be used to pay the borrower's tax and insurance bills. These funds are included in the borrower's regular monthly payment. An escrow account must be established at loan closing for all loans with a total outstanding indebtedness greater than $15,000 (be it 502, 504, or combination thereof) except new construction. This is because loan payments are not due during construction. Since the exact amount of taxes, insurance premiums and assessments are not known in advance, a cushion is established at closing to help ensure that there will be sufficient funds available to pay the bills. If the Agency underestimates the amount needed, the Agency will advance funds to pay the tax or insurance bill, and raise the borrower's escrow payments during the following year to repay the amount advanced. If the Agency overestimates the funds needed, a refund may be issued if the amount is greater than $50. If the amount of overage is less than $50, it will be credited to the next year's escrow. Annual-pay borrowers are exempt from the escrow requirement, but are responsible for timely payment of taxes and insurance premiums. The Agency will not escrow where the security property is located on a farm tract also financed by the Farm Service Agency (FSA), and we are unable to obtain a separate tax bill. FSA will be responsible for paying taxes in these situations. The only exception to this is for a Section 504 loan over $15,000 on a farm tract (see Paragraph 12.10).

The Agency will establish and administer escrow accounts in accordance with the Integrated Mortgage Disclosures under the Real Estate Settlement Procedures Act and the Truth In Lending Act (TRID) and section 501(e) of the Housing Act of 1949, as amended.

The Agency requires most borrowers who receive new loans to escrow funds for taxes and insurance. Borrowers are exempt from escrow if they:

- Are current on an annual payment plan;
- Have a leveraged loan and the escrow is maintained by the primary lending institution;
- Have received only a Section 504 grant;
- Have a Section 504 loan(s) with a total outstanding balance of $15,000 or less, and the Agency determines there is no risk to the Government's security interest in the property;
- Assumed a loan on same rates and terms; or
- Have security property which includes a farm and the property is not subdivided between the farm and non-farm tract. In these cases, the Agency may still elect to require escrow where the housing represents the majority of the value of the security property or it is in the Agency's best interest to require escrow.

The National Financial and Accounting Operations Center (NFAOC) is responsible for administering the escrow account. However, the Loan Originator is responsible for determining the monthly escrow deposit contribution during the first year, ensuring that the appropriate amount is collected at closing to establish the escrow account and to educate the borrower about what escrow accounts are and how they work.

7.3 ESCROW DEPOSITS

Escrow accounts are funded from 3 sources -- monthly payments, an initial deposit required at closing, and funds from the seller to cover taxes accrued prior to closing. Exhibit 7-1 illustrates the calculation of the initial deposit and monthly escrow payments.

A. Monthly Payment

The borrower's monthly installment includes not only the amount due for principal and interest, but also 1/12 of the anticipated amount required for taxes, insurance, other assessments for the year, plus a cushion as authorized by TRID.

B. Borrower's Initial Deposit to the Escrow Account

Over the course of a year the borrower's monthly payments should provide the amount needed to pay all tax, insurance (including flood insurance as applicable), and other assessment bills. However, the timing of the payments may be such that a bill comes due before the borrower has made sufficient payments to cover the cost. To avoid this problem, the borrower is required to make an initial deposit to the escrow account that is large enough to ensure that all anticipated payments can be met when they come due, but that at its low point the account contains no more than the equivalent of 2 monthly escrow payments.

C. Seller's Tax Liability

Taxes must be prorated between the buyer and the seller. To ensure that funds from the seller's pro rata share of the taxes are available to pay the taxes when they come due, funds are collected at closing to pay the borrower's closing costs or initial escrow deposit. Prorated tax funds may not be paid to the applicant/borrower other than for reimbursement of certain items paid by the applicant outside of closing. See Paragraph 8.6F for additional guidance.

7.4 CALCULATING ESCROW AMOUNTS

The Loan Originator must provide UniFi with tax and insurance figures that are then used to estimate the maximum loan amount, to determine the amount of loan funds to obligate, and to establish monthly payments and the initial deposit to the escrow account.

Although tax and insurance information used early in the process will be based on rough estimates, the Loan Originator should make every effort to obtain accurate information about historic and future costs so that later entries will be as accurate as possible. For construction loans, when calculating the escrow payment for closing, the field office is to use the amount needed to cover the Real Estate taxes for the upcoming 12 months. The Loan Originator must consider that there may be a re-assessment of the Real Estate taxes upon the completion of the dwelling and the escrow calculations will be made accordingly.

Exhibit 7-1

Escrow Account Funding

The initial escrow balance and the escrow payment amount are calculated in accordance with Integrated Mortgage Disclosures under the Real Estate Settlement Procedures Act and the Truth In Lending Act (TRID) and any other associated regulation. UniFi prepares Form RD 3550-9, Initial Escrow Account Disclosure Statement described in Paragraph 6.6. The following example is intended to show how escrow accounts are funded each year.

Assumptions:

(1) The loan closing occurs on February 12, 1996 with the first payment due April 1, 1996
(2) Taxes of $214.88 are paid in July and December
(3) Hazard Insurance of $319.00 is paid in January
(4) The Agency requires a minimum balance equal to 2 months of payments

Monthly Payment Calculation:

$214.88
$214.88
$319.00
$748.76 Total anticipated escrow disbursements divided by 12 equals
$ 62.39 per month escrow payment

Month	Payments to Escrow	Disbursements	Balance
Loan Closing	$249.64	$ 0.00	$249.64
April	$ 62.39	$ 0.00	$312.03
May	$ 62.39	$ 0.00	$374.42
June	$ 62.39	$ 0.00	$436.81
July	$ 62.39	$214.88	$284.32
August	$ 62.39	$ 0.00	$346.71
September	$ 62.39	$ 0.00	$409.10
October	$ 62.39	$ 0.00	$471.49
November	$ 62.39	$ 0.00	$533.88
December	$ 62.39	$214.88	$381.39
January	$ 62.39	$319.00	$124.78
February	$ 62.39	$ 0.00	$187.17
March	$ 62.39	$ 0.00	$249.56

The borrower will be required to pay $62.39 per month and will also be required to fund the escrow account at closing in the amount of $249.64. Part of the tax payment component of the initial escrow deposit will be contributed by the seller for the period from January 1st to the closing on February 12th.

According to TRID, the lending institution may at some time during the year achieve an escrow balance that does not exceed 2 monthly escrow payments. In this example the balance equal to 2 monthly payments ($124.78), occurs in January after the payment for hazard insurance.

NFAOC is required to perform an escrow analysis within 12 months of the first payment and every year thereafter. The actual running escrow balance from the prior year will become the basis for projecting the necessary escrow payment for the next year. The low point achieved will be compared to the projected minimum of $124.78. If the low point is below $124.78, the loan will be deemed to have a shortage. If the low point is greater than $50, the loan will have a surplus, which will be refunded to the borrower. If the surplus is less than $50, the amount will be credited to the next year's escrow.

7.5 CLOSING

The Closing Agent/Attorney will use the Closing Disclosure, to prorate real estate taxes for the current year between the seller and the buyer.

Form RD 3550-9, Initial Escrow Account Disclosure Statement will be completed by the Loan Originator and sent to the Closing Agent/Attorney at loan closing.

The Closing Agent/Attorney will collect the escrow funds at closing, and in most cases will provide them to NFAOC along with the closing documents. If real estate taxes are due within 60 days of the date of closing, the Closing Agent/Attorney should pay the real estate taxes and provide the remaining amount to NFAOC.

7.6 CONSTRUCTION LOANS

During the construction period, borrowers must be counseled that they are responsible for payment of taxes which come due since loan payments are not due during the construction period. The borrower is also responsible for the initial escrow deposit when construction is complete. Field Staff should complete Attachment 7-A to determine the borrower's full tax and insurance needs during the construction period. Funds for the payment of taxes during construction, and for the initial escrow deposit which includes both taxes and insurance, can be handled by one of the following two methods.

- One method would be to include any taxes that must be paid during construction and the initial escrow deposit in the loan amount. This option is at the discretion of the applicant, and is subject to loan underwriting standards. If this option is used, the applicant must be counseled that they are responsible for delivering the tax bill to the Field Staff so a loan check can be requested to pay the taxes. The applicant is responsible to follow-up with Field Staff, or the taxing authority, to ensure their tax payments were paid on time. If the initial escrow deposit was included in the loan, the applicant must also be counseled that they are responsible for funding any shortages. This may occur if the construction is delayed.

- The other method would be for the applicant to pay any taxes which come due during construction for personal funds while saving funds to make the initial escrow deposit at the end of the construction period. Should an applicant choose this option, they must be counseled to pay the tax bills when due and provide a copy to the Field Office. The applicant must also be counseled on how much will be required at the end of the construction period to adequately fund the initial escrow deposit.

Insurance is paid for one year in advance by loan closing. Therefore, an insurance bill should not come due during the construction period. If a bill does come due during construction, the borrower is responsible to pay the full annual premium. If the borrower does not pay tax bills or insurance bills which become due during construction, or there are insufficient funds to establish the escrow account when the loan is converted, the Field Office will cue NFAOC and provide the estimated amount of shortage, and the facts in the case. NFAOC will generally increase the monthly payments scheduled for the remainder of the escrow cycle to compensate for any shortage. NFAOC may also elect to charge the borrower's account for the shortage and reamortize the loan.

7.7 SERVICING ESCROW ACCOUNTS

NFAOC will handle ongoing actions related to escrow accounts, including collecting monthly payments, depositing funds into the escrow account, and handling all tax and insurance payments. NFAOC will conduct the annual escrow account analysis and send annual escrow disclosure statements to borrowers to give an escrow account history for the past year, including any differences between what was estimated and what was actually disbursed.

SECTION 2: TAXES

7.8 ESTIMATING THE AMOUNT OF TAXES

The Loan Originator can gather tax information from several sources. For existing properties, the Loan Originator can contact the real estate agent, the seller, and/or the local taxing authority to determine current taxes and whether any reassessment or tax rate increase is anticipated.

It will be more difficult for the Loan Originator to estimate taxes when dealing with planned new construction or a newly constructed property that has not yet been assessed. To make this estimate, the Loan Originator will use comparable existing residential property values in the market area for the first year, in order to prevent significant increases in the second year escrow payment as a result of the increase in property value to make this estimate. Any prorated amount of taxes to be paid by the seller should be based on the current assessment, even if it is not recent and does not reflect the actual value of the house.

7.9 TAX SERVICE FEE

Each new borrower will be charged a one-time tax service fee at the time of loan closing. The fee covers the cost of a tax monitoring service to track tax payments due, determine the most advantageous time to pay them, and arrange for payment of the taxes to be disbursed from the borrower's escrow account. State Directors are responsible for determining the tax exempt status of Native American reservation, tribal, and trust land and notifying those Field Offices which are affected. If the land is tax exempt, meaning no real estate taxes are assessed or charged, then a tax service fee will not be collected. Individual plots that are typically owned in fee simple are generally subject to taxation and a tax service fee will be collected. Borrowers who are obtaining a subsequent loan will not pay a second tax service fee. Refer to the tax service fee schedule shown in Attachment 7-B to determine the fee charged for new loans and new rates and terms assumptions.

7.10 TAX INFORMATION SHEET

At closing, the Loan Approval Official or Designee will review, update, and return a copy of the completed Form RD 3550-15, Tax Information, to the Closing Agent/Attorney with other closing documents. Form RD 3550-15 should list all of the local taxing authorities to which taxes are due, the amounts, the due dates, the parcel identification number, and a legal description of the property. All of this information is needed to allow NFAOC to manage the escrow account effectively and to protect the borrower from a shortage in their escrow account.

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SECTION 3: INSURANCE [7 CFR 3550.61]

7.11 OVERVIEW

The borrower is responsible for obtaining and continuously maintaining insurance on the security property until the loan is paid in full. The applicant will learn about the Agency's requirements and borrower's responsibilities regarding insurance during applicant orientation.

After the loan is closed, NFAOC is responsible for handling most insurance issues. The Field Office is likely to become involved only if NFAOC requests assistance to determine whether adequate repairs have been made to a property for which an insurance claim has been paid.

7.12 TYPES OF INSURANCE

A. Hazard Insurance

Most borrowers are required to maintain hazard insurance to protect the property against fire and weather-related damage (these policies may also be called "Fire and Extended Coverage," "Homeowner's," "All Physical Loss," or "Broad Form" policies). Hazard insurance is not required if the total outstanding Agency debt and any senior liens against the property are equal to or less than $15,000.

Master Policies

A master policy is one containing substantially the same standard provisions adopted or recommended by legislative action or by order of the State's insurance authority and ensures that the policy meets State requirements. The Loan Originator should require a master policy, unless State statutes exempt the company from the regulations requiring its use. In order for a company's policy to be approved by the Agency, it must submit a copy of the master policy and all attachments to the State Office for review and approval.

In States without master policies, Field Staff will ensure that policies meet the requirements of Attachment 7-C.

Many State Directors issue State Supplements to help Field Staff identify acceptable insurance policies.

B. Flood Insurance

Flood insurance is required for any property located in a Special Flood Hazard Area (SFHA), as identified by the Federal Emergency Management Agency (FEMA) and described in RD Instruction 426.2, except for loans and grants with an original principal balance of $5,000 or less. FEMA's Standard Flood Hazard Determination Form is used to document whether a property is in a SFHA and whether flood insurance is available under FEMA's National Flood Insurance Program. If the property is in a SFHA and flood insurance is required, the Loan Originator should notify the applicant using Form RD 3550-6, Notice of Special

Flood Hazards, Flood Insurance Purchase Requirements, and Availability of Federal Disaster Relief Assistance. The applicant must sign and return Form RD 3550-6 at or before loan closing. If the applicant cannot secure flood insurance through FEMA's National Flood Insurance Program in a SFHA, the property is not eligible for Federal financial assistance.

C. Builder's Risk Policies

A builder's risk policy is acceptable while the dwelling is under construction as long as it meets the Agency's requirements. An acceptable policy either: (1) names the borrower as the insured; or (2) contains a builder's risk endorsement for a policy issued to the borrower. A policy issued only to a contractor is not an acceptable substitute for the property insurance a borrower is required to provide. A builder's risk policy should automatically convert to full coverage when the dwelling is completed. Otherwise, acceptable insurance must be obtained to coincide with the expiration of the builder's risk provisions of the policy.

7.13 EVIDENCE OF INSURANCE

For loans secured by a first lien, the applicant must provide the original policy or declaration page, and evidence that 1 full year's premium has been paid. For loans secured by other than a first lien, a copy of the policy or declaration page, or other evidence of insurance, is acceptable. The applicant may submit a written binder in lieu of the policy or declaration page, as long as the policy will be submitted to NFAOC within 60 days of closing. Existing borrowers already on escrow submitting an application for a subsequent loan are not required to provide evidence of a full years paid premium.

7.14 AUTHORIZED INSURANCE PROVIDERS

Borrowers must purchase their policies from approved insurance companies licensed to do business in the State where the property is located. If the required insurance is not available at comparable rates from a State-licensed insurance company, the Loan Originator may accept insurance from another company if:

- The Office of General Counsel (OGC) confirms that policies issued by the company are enforceable despite the fact that the company is not licensed to conduct business in the State, and the company is a legal entity that may be sued in the State where the property is located; and

- The State Director determines that the company is reputable and financially sound, based on the company's financial statements, industry rating standards, or information available from the State insurance authority, or other lending institutions.

7.15 REVIEWING INSURANCE POLICIES

The borrower must submit evidence of insurance to the closing agent before or at the time of closing. The closing agent will review the policy, declaration page, or binder to ensure that it meets the requirements outlined in Attachment 7-C. If it is acceptable, the evidence of coverage should be kept in the borrower's case file after closing. If the borrower's policy or evidence is insufficient, the closing agent should explain why it is not acceptable (for example, there is not an adequate amount of coverage, it is not in the correct name, or the premium has not been paid). The closing will be postponed until suitable evidence has been provided to the closing agent.

ATTACHMENT 7-A

CALCULATION OF ESTIMATED TAXES DUE THROUGH CONSTRUCTION PERIOD AND INITIAL ESCROW DEPOSIT

Date Prepared: _____

Customer Name: _____ County/Parish: _____

Loan Amount: $_____ Loan Closing Date: _____

Number of Months in Construction Period: _____ Annual Insurance Premium Amount: $_____

Estimated Real Estate Taxes (Lot Only): $_____ Annual Real Estate Taxes (As Improved): $ _____

STEP 1

Estimate the taxes and insurance costs over the next 12 months:

Taxes $_____ divided by 12 = $ _____ monthly

Insurance $_____ divided by 12 = $ _____ monthly

TOTAL Estimated Monthly Escrow $_____(STEP 1)

STEP 2

Estimate the actual tax bills that will come due during the construction period.

Due: _____ Amount $_____

Due: _____ Amount $_____

Due: _____ Amount $_____

Total Taxes Due During Construction $_____(STEP 2)

STEP 3

Estimate the two month cushion by taking the monthly escrow calculated in STEP 1 and multiplying it by two.

Estimated Monthly Escrow (from STEP 1) $_____ x 2 = $_____(STEP 3)

STEP 4

Estimate the initial escrow deposit for property insurance by taking the annual premium, dividing by 12, and then multiplying the result by the number of months for construction .

Monthly Insurance $_____ x _____ (# of months to construct) = $_____(STEP 4)

STEP 5

Estimate the initial escrow deposit for taxes by taking the annual taxes due, dividing by 12, multiplying the result by the number of months for construction, and then subtracting the amount estimated in STEP 2.

Monthly Taxes $ _____ x _____ (# of months to construct) = $_____

minus $_____(result of STEP 2) = Total (enter "0" if negative) $_____(STEP 5)

STEP 6

Estimate the borrower's total financial needs for taxes and insurance by adding the results of STEPS 2 through 5 = **GRAND TOTAL $_____(STEP 6)**

NOTE: The "GRAND TOTAL" is the amount of taxes due during the construction period plus the initial escrow deposit.

STEP 7

Estimate the initial escrow deposit by adding the results of STEPS 3, 4, and 5 =

TOTAL ESTIMATED INITIAL ESCROW DEPOSIT $_____(STEP 7)

For borrowers who so elect, and subject to loan underwriting requirements, the Grand Total (STEP 6) may be included in the loan amount. The taxes due in STEP 2 will be paid during the construction period from loan proceeds. The estimated initial escrow deposit will be forwarded to NFAOC when construction is complete and the loan is converted to an active account. If STEP 6 is not included in the loan amount, the borrower must be counseled to save this amount during the construction period and pay taxes when due.

CASE STUDY #1

Susan Smith has been selected to participate in the Self-Help housing program. She will be borrowing $75,000. The construction period is estimated to be 11 months, and loan closing is May 1, 1998. Real estate taxes are paid twice a year - on June 30 and December 30. Taxes on the lot are $240 per year and are estimated to be $1,200 when the house is complete. The local county will reassess taxes on the completed house at an undetermined time after the Certificate of Occupancy is issued and the first full tax bill will be issued at the beginning of next full tax cycle. Annual insurance is estimated at $360.

See Page 3 of 4 for the results.

CASE STUDY #2

Tony Williams is a mason and owns his own lot. He obtained a building permit several months ago and has recently constructed a full foundation on his site. Mr. William's loan for $55,000 was just approved and loan closing scheduled for July 1, 1998. The local county will reassess taxes each October, and taxes are due January 1 and July 1. The taxes are currently $360 per year on the site (including the foundation), and are estimated to be $1800 when the house is complete. Construction will take approximately 60 days. Since construction will be completed prior to October (tax assessment time) the January 1 tax bill will reflect the full tax assessment. Annual insurance is $600 per year.

See Page 4 of 4 for the results.

ATTACHMENT 7-A

CALCULATION OF ESTIMATED TAXES DUE THROUGH CONSTRUCTION PERIOD AND INITIAL ESCROW DEPOSIT

	Date Prepared : 4/1/98
Customer Name: Susan Smith	County/Parish: Carolina
Loan Amount: $ 75,000	Loan Closing Date: 5/1/98
Number of Months in Construction Period: 11	Annual Insurance Premium Amount: $ 360
Estimated Real Estate Taxes (Lot Only): $ 240	Annual Real Estate Taxes (As Improved) $ 1,200

STEP 1

Estimate the taxes and insurance costs over the next 12 months:

Taxes $ 240 divided by 12 = $ 20 monthly

Insurance $ 360 divided by 12 = $ 30 monthly

TOTAL Estimated Monthly Escrow $ 50 (STEP 1)

STEP 2

Estimate the actual tax bills that will come due during the construction period.

Due: 6/30/98 Amount $ 120

Due: 12/30/98 Amount $ 120

Due: _____ Amount $_____

Total Taxes Due During Construction $ 240 (STEP 2)

STEP 3

Estimate the two month cushion by taking the monthly escrow calculated in STEP 1 and multiplying it by two.

Estimated Monthly Escrow (from STEP 1) $50 x 2 = $ 100 (STEP 3)

STEP 4

Estimate the initial escrow deposit for property insurance by taking the annual premium, dividing by 12, and then multiplying the result by the number of months for construction .

Monthly Insurance $ 30 x 11 (# of months to construct) = $ 330 (STEP 4)

STEP 5

Estimate the initial escrow deposit for taxes by taking the annual taxes due, dividing by 12, multiplying the result by the number of months for construction, and then subtracting the amount estimated in STEP 2.

Monthly Taxes $ 20 x 11 (# of months to construct) = $ 220

minus $ 240 (result of STEP 2) = # -20 Total (enter "0" if negative) $ 0 (STEP 5)

STEP 6

Estimate the borrower's total financial needs for taxes and insurance by adding the results of STEPS 2 through 5 = **GRAND TOTAL $ 670 (STEP 6)**

NOTE: The "GRAND TOTAL" is the amount of taxes due during the construction period plus the initial escrow deposit.

STEP 7

Estimate the initial escrow deposit by adding the results of STEPS 3, 4, and 5 =

TOTAL ESTIMATED INITIAL ESCROW DEPOSIT $ 430 (STEP 7)

For borrowers who so elect, and subject to loan underwriting requirements, the Grand Total (STEP 6) may be included in the loan amount. The taxes due in STEP 2 will be paid during the construction period from loan proceeds. The estimated initial escrow deposit will be forwarded to NFAOC when construction is complete and the loan is converted to an active account. If STEP 6 is not included in the loan amount, the borrower must be counseled to save this amount during the construction period and pay taxes when due.

ATTACHMENT 7-A

CALCULATION OF ESTIMATED TAXES DUE THROUGH CONSTRUCTION PERIOD AND INITIAL ESCROW DEPOSIT

	Date Prepared: 6/98
Customer Name: Tony Williams	County/Parish: South
Loan Amount: $ 55,000	Loan Closing Date: July 1, 1998
Number of Months in	Annual Insurance
Construction Period: 2	Premium Amount: $ 600
Estimated Real Estate	Annual Real Estate
Taxes (Lot Only): $ 360 (includes existing foundation)	Taxes (As Improved) $ 1,800

STEP 1

Estimate the taxes and insurance costs over the next 12 months:

Taxes $ 1,800 divided by 12 = $ 150 monthly (Note: Full taxes were used since next
Insurance $ 600 divided by 12 = $ 50 monthly tax bill will reflect a completed house)

TOTAL Estimated Monthly Escrow $ 200 (STEP 1)

STEP 2

Estimate the actual tax bills that will come due during the construction period. The first bill may be able to be reduced by the amount of any prorated taxes collected from the seller at closing.

Due: 7/1/98 Amount $ 180 *(Note: Being paid at loan closing 7/1/98)
Due: _____ Amount $_____
Due: _____ Amount $_____

Total Taxes Due During Construction $ 0 * (STEP 2)

STEP 3

Estimate the two month cushion by taking the monthly escrow calculated in STEP 1 and multiplying it by two.

Estimated Monthly Escrow (from STEP 1) $ 200 x 2 = $ 400 (STEP 3)

STEP 4

Estimate the initial escrow deposit for property insurance by taking the annual premium, dividing by 12, and then multiplying the result by the number of months for construction .

Monthly Insurance $ 50 x 2 (# of months to construct) = $ 100 (STEP 4)

STEP 5

Estimate the initial escrow deposit for taxes by taking the annual taxes due, dividing by 12, multiplying the result by the number of months for construction, and then subtracting the amount estimated in STEP 2.

Monthly Taxes $ 150 x 2 (# of months to construct) = $ 300

minus $ 0 (result of STEP 2) = Total (enter "0" if negative) $ 300 (STEP 5)

STEP 6

Estimate the borrower's total financial needs for taxes and insurance by adding the results of STEPS 2 through 5 = **GRAND TOTAL $ 800 (STEP 6)**

NOTE: The "GRAND TOTAL" is the amount of taxes due during the construction period plus the initial escrow deposit.

STEP 7

Estimate the initial escrow deposit by adding the results of STEPS 3, 4, and 5 =

TOTAL ESTIMATED INITIAL ESCROW DEPOSIT $ 800 (STEP 7)

For borrowers who so elect, and subject to loan underwriting requirements, the Grand Total (STEP 6) may be included in the loan amount. The taxes due in STEP 2 will be paid during the construction period from loan proceeds. The estimated initial escrow deposit will be forwarded to NFAOC when construction is complete and the loan is converted to an active account. If STEP 6 is not included in the loan amount, the borrower must be counseled to save this amount during the construction period and pay taxes when due.

ATTACHMENT 7-B

TAX SERVICE FEE

Loan Transaction	Tax Service Fee Charged
INITIAL 502 LOAN greater than $7,500	**
CREDIT SALE WITH OR WITHOUT A SUBSEQUENT LOAN same as initial 502 loan	**
504 LOANS if the total outstanding indebtedness is greater than $15,000 and taxes & insurance are not escrowed through another lender	**
NEW RATES AND TERMS ASSUMPTION WITH OR WITHOUT SUBSEQUENT LOAN New Borrower pays $10 regardless of what previous borrower paid. No additional charges apply.	$10
SAME RATES AND TERMS ASSUMPTION	$0
SUBSEQUENT LOAN if greater than $15,000 and borrower does not have an established escrow account.	**
If borrower has an existing escrow account.	$0
** New Loans Approved July 17, 2017 - July 16, 2018	$79
July 17, 2018 - July 16, 2019	$82
July 17, 2019 - July 16, 2020	$85
July 17, 2020 - July 16, 2021	$88
July 17, 2021 - July 16, 2022	$91
(This fee remains in effect until further notice)	

ATTACHMENT 7-C
INSURANCE POLICY REQUIREMENTS

A. Loss or Damage Covered

Hazard insurance policies must insure buildings against loss or damage by fire, lightning, windstorm, hail, explosion, riot, civil commotion, aircraft, vehicles, and smoke. The flood insurance, if applicable, must cover any damage due to flooding conditions.

B. Amount

The Loan Originator should encourage borrowers with a total indebtedness of more than $15,000 to obtain hazard insurance to cover the dwelling and any other essential buildings (such as a garage) in an amount that is equal to the insurable value (i.e. the cost to restore the property back to its state prior to a loss) of the dwelling and other essential buildings or the unpaid principal balance. Flood insurance must cover the **lesser of** the outstanding principal balance of the loan or the maximum amount of coverage allowed under FEMA's National Flood Insurance Program (NFIP).

The policy must state whether or not the building is on a leasehold. State Supplements provide guidance on specific State insurance requirements pertaining to leasehold interests.

C. Borrower's Deductible

The borrower's deductible may not exceed the generally accepted minimums based on current industry standards and local market conditions. Typically, the borrower's deductible will not exceed the higher of 1 percent of the face value of the policy or $1,000 unless State law requires a higher maximum deductible amount. In areas where such deductibles are not reasonably available due to local market conditions, i.e. areas on coastal lines or prone to high winds, State Supplements will be issued with prior National Office approval to provide guidance for current market deductibles. The supplemental guidance must identify the specific areas, the associated amount and the detailed justification for each area in the State that is authorized for higher deductibles. For flood insurance, these deductibles apply unless the insurance carrier requires a higher deductible amount.

D. Term

The policy must have a term of at least 1 year, with evidence that 1 year's premium has been paid.

E. Effective Date

If there are insurable buildings on the property (as opposed to vacant land to be built upon), the policy must be in force at the time the loan is closed. When a dwelling is to be constructed, the insurance coverage must be effective as of the date the materials are delivered to the property. No payments from loan funds for labor or materials can be made unless insurance coverage is in place.

F. Construction Specifications and Use Conditions

If the insurance policy specifies certain standards of construction or prescribes certain uses of the property, the policy will be acceptable only if the property meets the specifications or conditions.

G. Names and Location

The policy must include the legal names of all parties being insured. It also must contain a description of the property's location, although a legal metes and bounds description is not required.

H. Mortgagee Clause

A mortgagee clause ensures that the Agency will be reimbursed in the event of a loss by identifying the Agency as the secured party on the lien (the "mortgagee"). The standard mortgagee clause adopted by the State must be attached to or printed in the policy, and must identify the Agency as the mortgagee. Specifically, the Agency must be identified as the "United States of America, acting through the Rural Housing Service or its successor agency." The Agency, and all other mortgagees whose interests are insured under the policy, must be shown in either the mortgagee clause or on the declaration page in the order of priority of their mortgages. The address should be:

USDA, Rural Development
NFAOC
Attn: Insurance Department
P.O. Box 66876
St. Louis, Missouri 63166

Whenever a new mortgagee clause is issued after the policy has been in force, the new mortgagee clause must be signed by an authorized agent or officer of the company that issued the policy.

CHAPTER 8: LOAN APPROVAL AND CLOSING

8.1 INTRODUCTION

Once the Loan Originator has completed all of the procedures described in Chapters 3 through 7 and has decided based on the qualifications of the applicant, the characteristics of the property, and the results of the underwriting analysis that the loan should be made, the case file is submitted to the Loan Approval Official for final review and approval. Section 1 of this chapter describes the procedures used to notify the applicant of the Loan Approval Official's decision and to obligate loan funds, if appropriate. Section 2 describes the steps the Loan Originator and the closing agent must take to prepare the loan for closing. Section 3 describes the steps required to actually obtain funds for the closing and ensure that the closing is accomplished. Section 4 describes the process for administering construction loans.

SECTION 1: LOAN APPROVAL AND OBLIGATION

8.2 THE LENDING DECISION

If the underwriting analysis indicates that the loan should be approved, the Loan Originator must submit a complete case file to the Loan Approval Official. The Loan Approval Official should review all of the documents contained in the case file to ensure that they are completed properly, and must confirm that the Loan Originator's underwriting decision is sound. The Loan Approval Official must approve or reject the loan within 30 days of receiving a complete case file.

A. Rejection

If the loan is rejected, the Loan Originator should speak to the applicant directly to explain the reasons for the rejection. This conversation offers an opportunity to counsel the applicant about specific actions the applicant can take to permit the Agency to approve a loan in the future. Handbook Letter 15 (3550), Standardized Adverse Decision Letter, will be sent to the applicant as a follow-up to the conversation, or as notification of the rejection if the applicant cannot be reached. Whenever applicants are denied credit, they must be advised of their review and appeal rights, as described in Paragraph 1.9.

B. Approval

If the loan is approved, Form RD 3550-7, Funding Commitment and Notification of Loan Closing, will be issued. Throughout the fiscal year, loans may be approved subject to an appraisal. When this allowance is used, the box labeled "This commitment is contingent upon RHS obtaining an acceptable appraisal that adequately secures the loan and meets the requirements of 7 CFR Part 3550, section 3550.62" on Form RD 3550-7 must be checked.

8.3 OBLIGATING FUNDS

A loan must only be approved when funds are available to obligate the loan.

A. Initial Obligation

A loan must be approved and obligated the same day. Form RD 3550-7 must be signed and dated by the Loan Approval Official at the time of loan approval and obligation. Therefore, Form RD 3550-7 or any approval letter must not be issued to the applicant unless the loan has been approved and obligated.

As soon as the Loan Approval Official approves the loan, the Loan Originator will obligate funds through MortgageServ. If, after 15 days Form RD 3550-7 is not signed and returned, the Loan Originator must deobligate the loan. Once the loan has been deobligated, the application is withdrawn. Should the applicant express interest in another loan, a new application must be filed, and would be processed based on the new application date.

Loan approval and funds obligation may also trigger re-disclosure of the Loan Estimate if the interest rate and/or closing costs at loan approval are greater than disclosed on the original Loan Estimate. If a revised Loan Estimate is required, it must be issued within 3 business days of loan approval/obligation but no later than 4 business days prior to loan consummation (7 business days if the revised Loan Estimate is mailed to the applicant).

B. Changing the Loan Amount

If the loan amount must be increased or decreased prior to loan closing, any paperwork that reflects or is affected by the loan amount must be revised. The closing agent and the applicant must return any loan closing forms that have already been distributed so that they can be revised appropriately. Exhibit 8-1 illustrates the steps for making changes to the loan amount.

If a loan amount must be increased or decreased for a prior fiscal year, the Field Office should contact the National Financial and Accounting Operations Center (NFAOC) Disbursement Unit. All requests to increase the obligation amount for a direct loan with prior fiscal year funds are subject to the availability of funds at the time for the request. The NFAOC Disbursement Unit will make the required corrections to the obligation amount.

NOTE: Although it is understandable that errors sometimes occur when obligating and closing loans, Field Offices are required to make every effort to adhere to the guidelines outlined in this handbook for correctly obligating loans.

Exhibit 8-1
Steps for Changing the Loan Amount

Increase Amount of Loan	Decrease Amount of Loan
Verify availability of funds.	If the check or ACH disbursement has not yet been sent to the Field Office, cancel the request. If the funds have already been sent, void the check, if applicable, and return it to NFAOC. If ACH or wire funds have been sent, contact Field Assistance Desk at NFAOC so they can initiate retrieval of the funds.
If the funds have not yet been sent to the Field Office or closing agent, cancel the request. If a check has already been sent, void the check and return it to NFAOC. If ACH or wire funds have been sent, contact Field Assistance Desk at NFAOC so they can initiate retrieval of the funds.	Amend the original obligation in MortgageServ.
Cancel the obligation for the loan in MortgageServ.	Update the new loan information in UniFi.
Update the new loan information in UniFi.	Request a new check or ACH disbursement through MortgageServ.
Reobligate the loan for the correct amount and request a new check or	

C. Canceling a Loan

To cancel the entire loan prior to loan closing, the Loan Originator must deobligate the loan and cancel the funds request in MortgageServ. If ACH or wire funds were already sent, the Field Office should contact NFAOC's Field Assistance Desk and request that the funds be recalled from the closing agent. If a Treasury check has already been sent to the Field Office or closing agent, the check must be voided and returned to NFAOC with the completed Forms RD 1940-10, Cancellation of U.S. Treasury Check and/or Obligation, and RD 3550-17, Funds Transmittal Report. The Agency's or applicant's decision to cancel the loan must be documented carefully. The following instructions are to be followed for returning checks to NFAOC for cancellation:

Return Treasury Checks via FED-EX overnight to:
USDA, NFAOC
ATTN: FC-243 (Disbursement Unit)
4300 Goodfellow Blvd., Bldg 105E
St. Louis, MO 63120-1703

The required information for this packet is:
1) Form RD 1940-10, Cancellation of U.S. Treasury Check and/or Obligation;
2) Form RD 3550-17, Funds Transmittal Report; and
3) Check

After the funds have been returned, the Loan Originator must notify the applicant and closing agent of the loan cancellation using Handbook Letter 15 (3550), Standardized Adverse Decision Letter. In situations where the cancellation is not the applicant's choice, the Loan Originator must indicate on Handbook Letter 15 (3550) any action that can be taken to correct or appeal the decision. It is the applicant's responsibility to notify the seller and any contractors of the cancellation.

D. Monitoring Obligations:

The National Office posts an Undisbursed Obligation report to SharePoint each month so that State Offices can monitor undisbursed obligations over 180 days. This monthly report must be reviewed utilizing Attachment 8-B, Unliquidated Obligation Review. Timely usage of funds is essential and aids the Agency in ensuring that program dollars are not deobligated in the following fiscal year, making them unavailable to fund other applications. The monitoring of a State's unliquidated obligations should consider the circumstances of the loan, determine the need for the remaining funds, and whether a full or partial deobligation should occur.

SECTION 2: PREPARING FOR CLOSING

8.4 TITLE INSURANCE AND CLOSING AGENTS

For most loans, the Agency requires title insurance, and requires that the loan closing be conducted by a closing agent who meets the Agency's standards. This paragraph summarizes the Agency's requirements for title insurance and closing agents, and the procedures for approving the individuals and firms that provide those services. Details about these procedures can be found in RD Instruction 1927-B.

A. Title Insurance

Title insurance is required for most loans unless the State Director determines that the use of title insurance is not possible, is not economically feasible for the type of loan involved, or in the area of the State where the loan will be made. In these cases, an attorney's opinion can be accepted. If the total outstanding balance of any combination of any unsecured Section 502 and 504 loans that is less than $7,500 title insurance is not required. Title insurance is required on Section 504 loans only when the total outstanding balance is $7,500 or greater. Title insurance is not required for loans made on tribal trust land when a certified Title Status Report is issued by the Bureau of Indian Affairs.

B. Closing Agents

An attorney or title company may act as a closing agent and close Agency real estate loans, provide necessary title clearance services, and perform other closing-related duties prescribed by the Agency. 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. When feasible, loans made on tribal trust land do not require a closing agent as they may be closed by the Agency in conjunction with the Bureau of Indian Affairs.

C. Approvals

State Offices maintain a list of title insurance companies that are authorized to provide title insurance in the State. Each approved title insurance company may provide a master list of title companies and attorneys that are covered by its closing protection letter and are thereby authorized to perform closings on behalf of that title insurance company. The State Office determines which title insurance companies will be authorized to issue title insurance policies for Agency loans based on RD Instruction 1927-B.

Since a title insurance company is not regulated by the State, the approval process will be repeated at least every 5 years, or more often if adverse information becomes available, to ensure continued compliance by the title insurance company.

If an applicant selects a title company or attorney that is on the State Office list, no further verifications are necessary. If the attorney or title company selected is not on the list, they should provide an acceptable closing protection letter from an approved title insurance company.

Alternatively, title companies may submit Form RD 1927-20, Certification of Title Insurance Company, and attorneys may submit Form RD 1927-19, Certification of Attorney, to request Agency approval.

D. Procedures

If the applicant selects a title company or attorney that is not on the State Office list, the Loan Originator must send the title company or attorney Form RD 1927-20 or Form RD 1927-19, whichever is appropriate. The title company or attorney must return Form RD 1927-20 or Form RD 1927-19 to the Loan Originator for review. Standards for evaluating a title company or attorney's qualifications are contained in RD Instruction 1927-B.

To notify a title company or attorney of their selection and approval, the Loan Originator should send Form RD 1927-4, Transmittal of Title Information, and attach Form RD 1927-9, Preliminary Title Opinion, if an attorney is performing loan closing.

8.5 RESPONSIBILITIES OF THE CLOSINGAGENT/ATTORNEY

The Loan Originator must provide Form RD 3550-25, Loan Closing Instructions and Loan Closing Statement, to the closing agent/attorney. This form provides information about the amount of personal funds required from the applicant, the appropriate disbursement of funds, any remaining requirements that the applicant must meet, and the instruments and forms required for loan closing. The Loan Originator also should attach all forms needed for loan closing as well as copies of other documents to facilitate the closing agent's/attorney's review (e.g., tax bills, legal descriptions, or surveys). Closing documents may be sent via email **IF THE EMAIL ATTACHMENT IS ENCRYPTED WITH A SECURITY PASSWORD TO PROTECT THE APPLICANT'S/BORROWER'S SENSITIVE INFORMATION WHICH INCLUDES THE SOCIAL SECURITY NUMBER, ADDRESS, DATE OF BIRTH, etc.** Form RD 3550-25 need not be executed until loan closing, and must be returned, along with the other closing documents.

The closing agent/attorney is required to perform a number of tasks, including:

- Provide a title insurance binder (or prepare Form RD 1927-9, Preliminary Title Opinion) within 10 days of the date of the transmittal letter;
- Secure a title insurance policy within 60 days of loan closing or a final title opinion within 14 days of loan closing;
- Establish a mutually convenient date for the loanclosing;
- Assess whether, after closing, the borrower will have an ownership interest in the property that is of the priority required by the Agency and subject only to those exceptions approved by the Agency;
- Ensure that the applicant provides a copy of an acceptable hazard insurance policy or insurance binder, and evidence that 1 year's premium has been paid;
- Confirm that the applicant has flood insurance, if applicable;
- Collect any other information the Agency has instructed the applicant to provide;
- Ensure that the applicant is aware of any funds that must be brought to closing; and
- **On the day of the loan closing**, confirm that the applicant has no outstanding judgments. If any additional entries of record are identified, the loan cannot be closed until these entries are cleared or approved.

> The Agency is responsible for meeting the accuracy and timing requirements of the Closing Disclosure.

The Agency or closing agent/attorney must complete the Closing Disclosure, which itemizes the costs to be paid by the applicant and seller at closing. The Closing Disclosure may be used to reset tolerance instead of reissuing a revised Loan Estimate when a change in circumstance has occurred. UniFi will provide much of the information needed for the Closing Disclosure, including the amount of the initial deposit to the escrow account. This information should be provided to the closing agent/attorney. Real estate taxes and homeowners' association/condo fees must be prorated between the seller and borrower using the Closing Disclosure to estimate the actual amount of cash needed for closing and to determine the actual payment amount. The closing agent/attorney also must ensure that there are no outstanding demands for payment from a contractor or supplier for construction or repair work. If required by State Supplement, Form RD 1927-5, Affidavit Regarding Work of Improvement, must be signed at closing by the seller or, in the case of a subsequent loan, by the borrower, to certify that there are no outstanding claims.

8.6 RESPONSIBILITIES OF THE LOAN ORIGINATOR

The Loan Originator is responsible for coordinating all aspects of the process so that the required pieces come together on the day of closing. Between the time the loan is approved and the day of closing, the Loan Originator must: (1) work with applicants to be sure they understand and carry out their obligations; (2) work closely with the closing agent and review their work, as appropriate; (3) re-verify income, eligibility and validate the interest rate; and (4) prepare the documents that the Agency must provide for closing.

A. Prepare the Applicant

The Loan Originator must work with applicants to ensure that they understand the steps required to reach closing successfully.

1. Notification of Loan Closing

The Loan Originator must notify the applicant of the conditions to be met and information to be provided at or before loan closing using Form RD 3550-7, Funding Commitment and Notification of Loan Closing. The applicant must review, sign, and return Form RD 3550-7 to the Loan Originator within 15 days from the date of the form. The loan cannot be closed unless Form RD 3550-7 has been signed and all obligations listed on the form have been met.

2. Closing Costs

The applicant may be required to bring funds to closing for a variety of purposes, including assets that must be contributed as a down payment, funds to pay for closing costs, or resources to fund the initial deposit to the escrow account. Borrowers receiving a subsequent loan may be required to prepay interest at closing. An estimate of the required amount, determined by the Loan Originator, is provided on Form RD 3550-7. The closing agent/attorney makes the final determination of the actual amount required from the applicant.

B. Review Title Insurance Binder (or Preliminary Title Opinion) and Other Closing Documents

Upon receipt of a title insurance binder (or Form RD 1927-9, Preliminary Title Opinion), the Loan Originator must carefully review it and consider the issues identified in Exhibit 8-2. The Loan Originator should review any exceptions listed to determine if the lien position is in jeopardy. If the exceptions will adversely affect the property's title, suitability, or security value, the loan cannot be closed.

If prior liens will be present as part of a leveraging strategy, Form RD 1927-8, Agreement with Prior Lienholder, must be executed by the lien holder and recorded in the appropriate real estate mortgage records.

If any required information is omitted, or if the title insurance binder (or Form RD 1927-9) is not satisfactory, the Loan Originator should return it to the closing agent/attorney for corrections.

Exhibit 8-2

Reviewing the Title Insurance Binder (or Preliminary Title Opinion)

- After closing, the borrower must become the owner of record of the real property.
- Any liens or recorded claims that would prevent the Agency from obtaining an enforceable mortgage must be removed.
- Outstanding judgments, bankruptcy, insolvency, or probate proceedings must be resolved.
- All property rights intended to be taken as security must be available.
- If wetlands easements or other conservation easements have been placed on the property, they must be acceptable to the Agency.
- If there are any exceptions of record, they must be acceptable to the Agency.

The Loan Originator must also review the Closing Disclosure prepared by the closing agent/attorney and, if correct, will proceed (or authorize the closing agent/attorney) to provide the disclosure to the applicant at least three business days before loan consummation. The applicant may waive the three-business day waiting period if they are facing a bona fide financial emergency. Such request for waiver of the three-business day waiting period must be received by the applicant in writing. If revisions to the Closing Disclosure are needed after it has been provided to the applicant, an additional three business day waiting period will be required.

C. Re-verifying Employment and Income

The Loan Originator must obtain an oral verification of employment (VOE) within 10 business days prior to the closing date if the applicant has worked for the employer for less than a year or the other types of verifications are inconsistent or suspicious. A written verification of employment, dated within 10 business days prior to the closing date, may be accepted in lieu of an oral VOE. Documentation to re-verify the applicant's income must be updated before loan closing if: (1) the closing will occur more than 120 days after the date on the income/employment verification documents; (2) there is evidence to indicate a change in financial status; or (3) the applicant's employment status had changed within 4 months prior to submission of the application. All re-verification activity should be documented carefully.

If the income re-verification indicates a significant change in income, the Loan Originator should take the following steps:

- Verify that the applicant is still income-eligible. A program loan cannot be granted if the applicant's adjusted income exceeds the moderate-income level at closing. Regardless of whether the applicant's income decreases or increases to change their status from very-low or low income, no changes are needed on the loan obligation. (There are no income restrictions for non-program applicants.)

- Determine whether the applicant is eligible for payment subsidy. Payment subsidy may be granted if the applicant's adjusted income is at or below the applicable moderate-income limit.

- Consider whether the applicant could obtain 100 percent private financing and refer the applicant to a private lender, if appropriate.

- Confirm that the applicant has adequate repayment ability.

D. Re-verify Eligibility

The applicant's circumstances may have changed since loan approval/obligation and must be reviewed as part of closing preparations. Form RD 3550-7, Funding Commitment and Notification of Loan Closing, should be reviewed to be sure all obligations are included on the most recent Eligibility Summary. After all re-verifications have been completed, the Loan Originator will print out and sign a new UniFi Eligibility Summary and place it in the applicant case file.

E. Validate the Interest/Note Rate

Before preparing the loan closing documents, the Loan Originator must validate the note rate. The validation process involves reviewing the information in UniFi and MortgageServ to ensure that both systems have the same and correct interest rate.

The Loan Originator should use the following process to validate the note rate.

- Review the interest rate history to determine if an interest rate change occurred between loan approval/obligation and loanclosing.

- Determine which of the interest rates is lower. **The Loan Originator must use the applicable interest rate in effect at loan approval or loan closing, <u>whichever is lower.</u>**

- If the interest rate at closing is lower than the one in effect at the loan obligation/approval date, both UniFi and MortgageServ must be updated to reflect the lower rate.

- Ensure that documents printed from UniFi, especially those affected by the interest rate such as the Promissory Note, Loan Estimate and Closing Disclosure, Truth in Lending Statement (as applicable) and Form RD 410-4, are accurate, consistent with the information in MortgageServ, and in compliance with program guidelines.

F. Prepare Loan Documents

The Loan Originator should assemble the forms needed for closing, and forward them to the closing agent/attorney with Form RD 3550-25, Loan Closing Instructions and Loan Closing Statement. When preparing the instructions, any cash back to the applicant/borrower must be limited to the reimbursement for certain items paid by the applicant/borrower outside of closing (i.e. earnest money deposit, homeownership education fee, inspection fees, and the first year's hazard insurance premium). Loan funds or excess seller paid concessions may not be disbursed to the applicant/borrower. Excess loan funds should be applied as a principal reduction.

Closing documents may be sent via email **IF THE EMAIL ATTACHMENT IS ENCRYPTED WITH A SECURITY PASSWORD TO PROTECT THE APPLICANT'S/BORROWER'S SENSITIVE INFORMATION WHICH INCLUDES THE SOCIAL SECURITY NUMBER, ADDRESS, DATE OF BIRTH, etc.**

The closing agent/attorney is responsible for completing the appropriate forms, preparing the security instruments, and obtaining signatures at closing, as needed. Attachment 8-A lists the documents needed for loan closing.

In unusual circumstances, changes must be made to the text of a security instrument or promissory note. For example, in the case of a non-program borrower, the clauses relating to refinancing to other credit and prohibition on leasing will be stricken. The Loan Originator should draw a line through only the specific language to be deleted, and alert the closing agent/attorney of the deletions. All persons signing the security instrument or promissory note must initial the changes in the margin.

1. Special Documents for Assumptions

Whether new funds are obligated or existing loan funds are recycled through an assumption is primarily an accounting function, and is largely transparent to the purchaser and seller. However, there are 3 procedural differences that will affect the purchaser and the seller. First, the purchaser must sign Form RD 3550-22, Assumption Agreement Single Family Housing, at closing. Second, the original note is not returned to the seller. Instead, the note is amended to indicate that it has been assumed. The original Promissory Note, with a copy of Form RD 3550-22 attached, is kept in a locked fire-proof file. Copies are placed in the purchaser's case file. Third, Form RD 3550-16, Release from Personal Liability, is provided to the seller at closing. The agreement is executed to release the seller from all personal liability for the amount of debt being assumed. In cases where the debt is not being assumed in full, NFAOC will handle the settlement of the remaining debt and any release of liability for that portion of the debt not being assumed.

Unless required by State law, a previous mortgage / deed of trust may be released provided that all previous promissory notes and assumption agreements are listed on both the new assumption agreement and the new mortgage or deed of trust to ensure that all debts are adequately secured.

2. Special Documents for Subsequent Loans

Applicants who are obtaining a subsequent loan have a legal right to cancel the loan within 3 business days from whichever of the following activities occurs last: (1) execution of the mortgage or deed of trust; (2) receipt by the applicant of the Closing Disclosure at least 3 business days prior to consummation; or (3) receipt of Form RD 1940-43, Notice of Right to Cancel. The Loan Originator or closing agent/attorney cannot disburse funds to the applicant until the 3 business days have passed, unless a hardship exists and the applicant waives their right to cancel the loan in writing.

3. Special Instructions for Loans on Tribal Trust Land

Only the Bureau of Indian Affairs (BIA) has the legal authority to secure a recording on tribal trust land. The BIA serves as the recording office and title insurance guarantor for all tribal trust lands. A Title Status Report (TSR) must be requested from the BIA for which the Agency will need to provide certain lending documents such as the approved lease agreement, mortgage / deed of trust, promissory note, etc. The Agency may close the loan upon BIA approval and commitment to issue the certified TSR which will show the recorded Agency lien. Without a certified TSR issued from the BIA the Agency does not have a secured lien.

SECTION 3: CLOSING

8.7 OBTAINING FUNDS FORCLOSING

The Agency utilizes an automated process for the electronic disbursement of loan funds known as the Automated Clearing House (ACH) network. This process pertains only to initial disbursements on section 502 loans. At the appropriate time, funds are released via ACH into the closing agent's/attorney's account in order to close the loan. Under no circumstances will the loan closing proceeds be transferred from one closing agent's/attorney's bank account to another. In the event the funds were sent to the wrong closing agent/attorney, call NFAOC at the Field Support/ACH Help Desk.

The ACH process is **not** utilized for subsequent disbursements on construction loans, section 504 Loan and Grant combos, 504 grants, and 504 loans. Subsequent disbursements on construction loans, section 504 Loan and Grant combos, 504 loans, and 504 grants only are requested via the MortgageServ system.

Any loan that is closed in the Field Office will use a paper check, i.e. Native American loans closed via Office of General Counsel (OGC) and section 502/504 Note only loans. Checks are generated the day they are requested and are dated for 3 days later.

8.8 ESTABLISHING THE DISBURSEMENT SCHEDULE

Some borrowers will be able to occupy their dwellings immediately, while others will need to remain in other housing until construction or rehabilitation is complete. To avoid requiring borrowers to repay an Agency loan while continuing to pay other housing costs, borrowers who cannot occupy the property within 30 days are permitted to defer loan payments.

A. Permanent Loans

If loan funds are to be used to purchase an existing dwelling or newly built house (that was complete or largely complete when the purchase agreement was signed), or to complete minor repairs, such as painting or carpeting, the borrower should be able to occupy the property within 30 days. In these situations, a permanent loan is made and the borrower's repayment obligation begins immediately. Funds for permanent loans are requested in a single advance. In general, the loan funds are disbursed in full at closing. If funds for repairs are not fully disbursed at loan closing, the undisbursed loan proceeds are deposited into an escrow account supervised by the closing agent/attorney, or into a supervised bank account and disbursed in accordance with RD Instruction 1902-A.

B. Construction Loans

> Interest will always accrue at the subsidized rate during the construction period.

If loan funds are to be used to build a new dwelling or to undertake repairs that will prevent the borrower from occupying the dwelling for more than 30 days, the loan is made as a construction loan. Funds for construction loans are disbursed in multiple advances that begin to accrue daily simple interest as of disbursement at the borrower's subsidized rate and will not exceed the note rate. When activating the construction loan, and to ensure that interest accrues at the subsidized rate during construction, the Loan Originator must enter the subsidized rate into MortgageServ.

The Loan Originator will post each disbursement into MortgageServ. MortgageServ will calculate and record the amount of the interest accrual during the construction period. The Loan Originator must generate the Eligibility Summary from UniFi and place it in the borrower's case file when the construction loan is activated. The construction loan is converted for amortized payments which will be due the first day of the month as a permanent loan in MortgageServ once the final disbursement is posted and following **any** of these events:

- Final inspection by the Agency or qualified third party;
- Issuance of the Certificate of Occupancy by the local jurisdiction;
- Occupancy of the new or repaired dwelling

When construction funds are not fully expended at loan conversion, all remaining loan proceeds are deposited into an escrow account supervised by the closing agent/attorney, or into a supervised bank account and disbursed in accordance with RD Instruction 1902-A. Principal curtailments for construction funds remaining after completion are handled according to Chapter 5, Paragraph 5.28.

C. Construction Take-Out Loans

If loan funds are to be used to purchase a newly built house where construction had not started or just started at the time the purchase agreement was signed and where the builder will retain ownership of the lot during construction and fund the construction, the loan is made as a purchase new loan. In this situation, the obligation can occur in advance of construction provided the proposed construction and site meet the property and environmental standards. In addition, the Loan Originator should determine how the construction quality will be documented following the guidance in Chapter 6, Paragraph 6.7 B. Once the construction is complete, the closing is held and the disbursement schedule follows that of a permanent loan.

Prior to closing, obligations for these loans must be closely monitored. The Loan Originator should routinely check in with the builder and/or applicant (e.g. by telephone, email, etc.) to ensure the construction is progressing in a timely manner based on the closing date established on the purchase agreement. Valuation updates or completion reports from the appraiser are not required unless the Agency learns of substantial changes to the plans or specifications which were not pre-approved by the Loan Approval Official.

8.9 ESTABLISHING A REPAYMENT SCHEDULE

A. Monthly Installments

The Loan Originator must indicate the appropriate monthly payment schedule on Form RD 1940-16, Promissory Note. **Under no circumstances** will a new loan be scheduled with an annual installment. Borrowers with existing loans specifying annual payments may request conversion to monthly payments, and must convert to a monthly payment schedule before any subsequent loan or new payment subsidy is approved.

B. Housing Assistance Program (HAP)

HAP payments made from the Housing Choice Voucher-Homeownership Program should be handled in the following manner. The Loan Originator should:

- Encourage the Public Housing Authority (PHA) to send the HAP (principal, interest, taxes and insurance portion only) directly to Rural Development (via the appropriate lockbox) or to the leveraged lender versus sending it directly to the family.
- Notify the PHA of the appropriate lockbox address and inform the PHA that the check **must** include the borrower's name and account number at aminimum.
- If the PHA elects to use any other payment method, Field Offices will be responsible for monitoring these accounts, which will require coordination with NFAOC to ensure they remain current.
- Accounts that use the Housing Choice Voucher should be designated a "Yes" in the field called "Section 8 Vouchers" in the "New Application Additional Set Up Screen" in UniFi.

8.10 ORIGINAL EQUITY

Original equity is calculated using the market value, as defined in Form RD 3550-12, Subsidy Repayment Agreement, at the time of loan approval/obligation for both new and existing properties. Original equity is the difference between current market value and the total of all Agency and leveraged assistance (including subordinate affordable housing products and/or grants). Prepaid taxes and insurance are not considered original equity, nor are contributions toward closing costs. Form RD 3550-12, Subsidy Repayment Agreement, contains the original equity amount. Only one agreement should be executed by the subject borrower for the subject property. A new agreement should not be completed when extending additional financing (i.e. subsequent loans) to an existing borrower with an active agreement.

When an applicant is purchasing a program Real Estate Owned (REO) property and the purchase price is less than the market value due to an administrative price reduction, the equity to be credited to the borrower (if any) is any difference between the actual purchase price and the loan amount. Administrative price reductions do not affect original borrower equity.

8.11 LOAN CLOSING

The closing agent/attorney must review each closing document with the applicant, obtain signatures, as appropriate, and collect and disburse all required funds. Attachment 8-A provides a list of the documents that may be required at closing.

A. Loan Closing Document Submission

Many of the legal documents and other information used in underwriting the loan must be provided to NFAOC in order to assist with quality assurance and servicing.

Prior to loan closing the Loan Originator must complete the following items to be submitted to the closing agent/attorney:

Special Loan Closing Requirements
See Chapter 9 for condominiums, community land trusts, planned unit developments, or manufactured homes. See Chapter 10 for leveraged loans.

1. Form RD 3550-19, Transmittal – Closing Documents, with the appropriate documents as indicated on the transmittal.
2. Form RD 3550-25, Loan Closing Instructions and Loan Closing Statement, which includes the required forms to be signed by the borrower(s) at loan closing.

Once loan closing has occurred, the closing agent/attorney will:

1. Send to NFAOC via express (overnight)mail:
   a. Form RD 3550-17, Funds Transmittal Report, and
   b. A check for total fees collected as shown on Form RD 3550-17.
2. Send to the Field Office via express (overnight) mail:
   a. Original loan closing documents, and
   b. Copy of Form RD 3550-17, Funds Transmittal Report, along with a copy of check for total fees collected.

The Field Office is responsible for submitting closing documents to NFAOC <u>within 3 working days of loan closing</u>, as described in Form RD 3550-25, Loan Closing Instructions and Loan Closing Statement, and in Chapter 10 of the DLOS manual.

The closing agent/attorney must return all original documents to the Loan Originator to be retained in the case file. However, the original Promissory Note and other essential records must be retained in their original hard copy form, in a locking-type fire proof filing cabinet or safe. The title insurance policy (or final title opinion) will be sent only to the Loan Originator and applicant by separate envelope. NFAOC does not receive a copy of the Final Title Policy.

The loan docket for construction loans should not be sent to NFAOC until the loan is converted to a permanent loan and the Promissory Note is amended.

B. Review Closing Documents

The Loan Approval Official must review the closing documents to verify that the Agency has received the proper lien priority. The Loan Approval Official also should check Form RD 3550-7, Funding Commitment and Notification of Loan Closing, to confirm that the applicant submitted all required information. The Loan Approval Official then signs Form RD 3550-25, Loan Closing Instructions and Loan Closing Statement, to certify that the loan was closed in accordance with the instructions provided.

C. Activate the Loan

The Loan Originator activates the loan in MortgageServ after loan closing to signal NFAOC that the loan has been closed, and that servicing should begin. NFAOC does not begin to service construction loans until they are converted to permanent.

D. Record Mortgage or Deed of Trust

The closing agent/attorney must record Form RD 3550-14 after loan closing. The closing agent/attorney should submit an unrecorded copy to the Loan Originator along with the other closing documents. The recorded copy should be provided to the Loan Originator as soon as it is completed.

If the original is retained by the filing official, a conformed copy showing the date and place of recordation must be provided.

E. Secure Title Insurance Policy

The closing agent/attorney must secure the title insurance policy and deliver it to the Loan Originator and applicant. A copy of the binder/commitment letter must be submitted to NFAOC with other closing documents.

SECTION 4: CONSTRUCTION LOANS

8.12 ADMINISTER CONSTRUCTION FUNDS

When funds are used for construction or rehabilitation, the Loan Originator must supervise their use. The Loan Originator and the borrower must each accept the work when the contractor wishes to receive payment. If applicable, proper implementation of mitigation measures required by the environmental assessment also should be reviewed. If the work is acceptable, the Loan Originator should order a check with the borrower's and contractor's names on it as instructed in Chapter 12 of the DLOS manual. The check is sent to the Field Office, and once received, it should be given only to the borrower for endorsement. After the borrower endorses the back of the check, it should be promptly delivered to the contractor. The payment process may be expedited if the Loan Originator, borrower, and contractor meet at the dwelling, but this may not be feasible in all instances.

The amount of each disbursement for construction loans is determined by the draw schedule, which is developed based on the value of the work, according to Marshall and Swift guidelines. To ensure that all work will be completed satisfactorily, the Agency holds back 40 percent of each payment to the contractor, unless the contractor has obtained a Surety Bond, Performance Bond, or Payment Bond, in which case only 10 percent is held back. Holdbacks are released with the final payment.

8.13 CONVERT CONSTRUCTION LOANS

When a construction loan is made, the promissory note is written at the promissory note rate; however when the loan is activated, the subsidized rate the borrower will receive is entered in MortgageServ as the note rate. This causes interest during the construction period to accrue at the subsidized rate.

A construction loan is converted to a permanent loan effective on the first of the month following final inspection, or occupancy, or issuance of an occupancy permit. When the loan is converted to a permanent loan, the Loan Originator must change the note rate in MortgageServ to the note rate that was in effect when the construction loan was made, so that it matches the borrower's note.

Loan conversion and the final inspection can occur on the same day provided the local office receives a copy of the final occupancy permit or other equivalent inspection report prior to the date of final inspection and funds have been fully disbursed.

A. Modify Note and MortgageServ

On the conversion date, the Loan Originator updates Form RD 1940-16, Promissory Note, to reflect the new principal amount of the loan, including the interest generated during the construction period. The borrower should initial the note to acknowledge the change. The Loan Originator then amortizes the new principal amount over the remaining term of the loan. The Loan Originator also must change the note rate in MortgageServ, which was entered at the applicable subsidized rate, to reflect the note rate in effect when the construction loan was made, and change the account number, as directed by NFAOC, to reflect the conversion from a construction loan to a permanent loan. Conversion to the permanent loan number will signal NFAOC to take over servicing responsibilities.

Borrower Acknowledgement of Accrued Interest

If the borrower is unavailable or unwilling to acknowledge the revised loan amount from the accrued interest during construction, the Loan Originator should proceed with conversion to permanent in MortgageServ. The running record should be documented and a letter sent to the borrower with a copy of the revisions to the promissory note.

B. Update Payment Subsidy

If the borrower is eligible for payment subsidy, the Loan Originator must reverify income if more than 120 days have passed since the last verification or there is evidence to indicate a change in financial status since the construction loan was made. Income will be verified using the preferred sources. Written verifications may be valid for an additional 60 days with oral reverifications at the end of the 120 days. The Loan Originator must generate Form RD 1944-14, Payment Assistance/Deferred Mortgage Assistance Agreement, or Form RD 1944-6, Interest Credit Agreement, and Form RD 3550-12, Subsidy Repayment Agreement, and obtain the appropriate signatures.

The LESSER of the sales price including construction/rehabilitation costs, or appraised value obtained in connection with the loan approval/obligation is used to determine market value on Form RD 3550-12, Subsidy Repayment Agreement, regardless of the length of the construction process. For Self-Help loans, the market value is the appraised value as determined at the time of loan approval/obligation, which is subject to completion per plans and specifications. If the construction is not ultimately finished under the Self-Help program, an amended Form 3550-12, Subsidy Repayment Agreement, using the market value definition in this paragraph must be used. If the applicant owns the site free and clear, or if an existing non-Agency debt on the site without a dwelling will not be refinanced with Agency funds, the market value at the time of loan approval will be the LESSER of the appraised value or the construction cost plus the value of the site.

ATTACHMENT 8-A
DOCUMENTS TO BE SIGNED OR SUBMITTED AT LOAN CLOSING

RD 410-4	Uniform Residential Loan Application (printed from UniFi)
RD 3550-14	Real Estate Mortgage or Deed of Trust for (State)
RD 1940-16	Promissory Note
RD 1927-9	Preliminary Title Opinion or Title Insurance Binder
RD 3550-7	Funding Commitment and Notification of Loan Closing
CFPB H-24	Loan Estimate (if applicable)
RD 1940-41	Truth in Lending Statement (if applicable)
RD 1940-43	Notice of Right to Cancel (if applicable – subsequent loan, refinance, etc.)
CFPB H-25	Closing Disclosure
RD 1944-6	Interest Credit Agreement (if applicable)
RD 1944-14	Payment Assistance/Deferred Mortgage Assistance Agreement (if applicable)
RD 3550-12	Subsidy Repayment Agreement (if applicable)
Document	Evidence of Insurance and receipt for 1st year premium
RD 3550-15	Tax Information
RD 3550-9	Initial Escrow Account Disclosure Statement
RD 1927-5	Affidavit Regarding Work of Improvement (within 45 days)
RD 1927-8	Agreement with Prior Lienholder (if applicable)
RD 3550-22	Assumption Agreement - Single Family Housing (if applicable)
RD 3550-16	Release from Personal Liability (if applicable)
RD 3550-17	Funds Transmittal Report
RD 3550-19	Transmittal-Closing Documents and Attachments listed on Form (if applicable)
RD 1955-49	Quitclaim Deed or Warranty Deed (if applicable)
RD 3550-10	Condominium Rider (if applicable)
RD 3550-11	Planned Unit Development Rider (if applicable)
RD 3550-25	Loan Closing Instructions and Loan Closing Statement
RD 3550-29	Authorization Agreement for Preauthorized Payments (if applicable) Document Errors and Omissions Agreement First payment coupon generated from UniFi

ATTACHMENT 8-B

UNLIQUIDATED OBLIGATION REVIEW

Obligation of funds should not occur until the loan and/or grant has been fully underwritten in accordance with the procedures described in Chapters 3 thru 7 of this handbook. Once funds are obligated, they must be disbursed in a timely manner. Loan approval and obligation implies that the Agency has determined the applicant has an immediate need for and will promptly use the funds. Therefore, it is imperative that unliquidated obligations are monitored to ensure that the funds are still needed and will be used by the applicant.

Monthly reviews of obligations are important to the Agency in order to properly report and certify the validity of obligation balances, prevent the loss of loan funds that expire at the end of a fiscal year, make funds available that otherwise would not be used and reduce the risk of fraud, waste and abuse.

1. State Office Monitoring

The National Office will post an Undisbursed Obligation report to SharePoint each month so that the State Office can monitor undisbursed obligations on a monthly basis. This report provides a detailed listing of all unliquidated obligations that are more than 180 days old. The report of unliquidated obligations will contain a close code of “1”, “4” or “9”. An obligation with a close code of “4” is classified as an application, indicating the loan has not yet closed, while obligations with a close code of “1” or “9” are classified as active accounts, signifying a closed loan.

The review official’s sample must consist of all unliquidated obligations that have been inactive for twelve months or more. In addition, at least half of the unliquidated obligations that have been inactive for less than 12 months must be reviewed. Obligations selected shall be reviewed to determine whether the intended purpose of the loan or grant is expected to occur. The following review guide entitled, “Single Family Housing Unliquidated Obligations” must be utilized for completion of the review. After completion of the review guide, the review official will inform the Field Office if the obligation may remain outstanding or if de-obligation is required.

This review is intended to disclose unliquidated obligations for loans or grants:

(a) That do not have a legal basis, or are not properly authorized and supported by appropriate documentation;

(b) Which have been completed and have not been closed out; and

(c) Under which no future expenditures are expected.

Once a determination is made that an obligation can be deobligated, the Loan Originator will take the applicable action as per the instructions in HB-1-3550, Chapter 8, Paragraph 8.3 B. or C. as appropriate.

Single Family Housing Unliquidated Obligation Review

State Office Reviewer _____ State_____

Title_____ Review Date_____

Applicant's Name: _____ Account Number: _____

Date of Obligation: _____

1. Has the loan/grant closed? Yes___ No___
2. If the loan/grant has not closed, has the applicant provided all the necessary information and does the file contain documentation as to why the loan has not closed?
   Yes___ No___ NA___
3. Are legal or construction issues preventing disbursal of funds or the loan fromclosing?
   Yes___ No___ NA___
4. Has the planned construction period expired? Yes___ No_____ NA ____
5. Have funds been spent consistent with percentage of construction completion? Yes_ No_ NA___
6. Has the customer received any supplemental or subsequent loans or other additional funds?
   Yes___ No___
7. If the answer above is yes, is there justification for increase in funding levels?
   Yes___ No_____ NA ___
8. Is there a period of inactivity? Yes___ No___

If yes, explain and document the reasons below.

_____

_____

9. Is the undisbursed obligation justified? Yes___ No___

If yes, explain justifications and basis to continue with loan below.

_____

_____

10. Should the obligation be canceled? Yes_____ No____

If no, establish a completion date for closing out the obligation below.

_____

_____

2. National Office Monitoring

The National Office will periodically request loan/grant files to conduct reviews of undisbursed obligations. The results of the review will be shared with the State Offices. If the National Office review concludes the unliquidated obligation is not justified, the State Office must inform the Field Office to de-obligate the funds and follow-up to ensure that it is accomplished in a timely manner.

CHAPTER 9: SPECIAL SITUATIONS

9.1 INTRODUCTION

This chapter describes the requirements for processing loans in several special situations. Section 1 discusses conditional commitments. Section 2 deals with processing requirements surrounding condominium ownership, community land trusts, and planned unit developments. The chapter concludes with Section 3, which describes the specific processing differences for manufactured homes.

SECTION 1: CONDITIONAL COMMITMENTS [7 CFR 3550.70]

9.2 OVERVIEW OF CONDITIONAL COMMITMENTS

A conditional commitment is a written assurance from the Agency to a qualified builder, dealer-contractor, or seller that a dwelling to be constructed or rehabilitated will be certified as acceptable for purchase by qualified loan applicants, as long as the construction and sales price meet certain conditions. The conditional commitment does not reserve loan funds, nor does it guarantee that an eligible loan applicant will be available to purchase the property. It does, however, provide a reasonable assurance to the builder that the home will be eligible for financing once it is completed.

If the area does not remain rural, the conditional commitment will not be honored unless a purchaser is found who applied for a loan before the rural area designation changed.

9.3 APPLICATION AND FEE

Builders, dealer-contractors, or sellers interested in becoming conditional commitment contractors must apply using Form RD 1944-36, Application for Conditional Commitment. A single application form may be used to request conditional commitments for multiple dwellings. All required attachments must be included for each dwelling for which a conditional commitment is requested, including the proposed selling price, address, evidence of building site ownership, and detailed descriptions of all proposed construction.

Applicants must include a $675 fee for each dwelling for which a conditional commitment is requested. If a preliminary inspection of the property or investigation of the conditional commitment applicant indicates that a conditional commitment will not be issued, the application fee should be refunded. Once the appraisal is conducted, the application fee cannot be refunded. When a loan on a property with a conditional commitment is closed, the appraisal fee collected from the purchaser is disbursed to the conditional commitment contractor.

9.4 EVALUATING THE CONDITIONAL COMMITMENT APPLICATION

An application for a conditional commitment is evaluated based on the criteria discussed below.

- **Ownership.** The applicant must have an adequate ownership interest in the property, as described in Paragraph 5.11, before beginning construction.

- **Capacity.** The applicant must have the experience and ability to complete any proposed work competently and must be financially responsible and able to finance or obtain financing for any proposed work. The capacity of applicants for conditional commitments should be evaluated in the same manner as for any construction contractor, as discussed in Paragraph 5.25 A.

- **Legal capacity.** The applicant must have the legal capacity to enter into the required agreements. Legal capacity can be verified by checking the applicant's business license and registration.

- **Civil rights.** The applicant must agree to comply with all applicable laws, regulations, and Executive Orders relating to civil rights, as described in Paragraph 1.9.

- **Affirmative marketing.** Any company that receives 5 or more conditional commitments during a 12-month period must develop an acceptable Affirmative Fair Housing Marketing Plan, as described in RD Instruction 1901-E.

- **Site requirements.** The proposed site must meet the requirements listed in Section 1 of Chapter 5.

- **Dwelling requirements.** If the dwelling is to be constructed or substantially rehabilitated, it must meet the requirements listed in Section 2 of Chapter 5. If it is a new manufactured home, it must meet the requirements of Paragraph 9.19.

- **Environmental Requirements**. An environmental review must be completed as described in Section 3 of Chapter 5.

- **Start of construction.** Conditional commitments for new or substantially rehabilitated dwellings will not be issued after construction has started.

- **Local market demand.** The number of conditional commitments issued in any locality should not exceed existing market demand. In particular, the number of outstanding commitments in the area must not exceed the number of loans that can reasonably be expected to be made within 3 months of dwelling completion. To determine this, the Loan Originator should consider the availability of loan funds and the number of loan applications typically received in the office.

- **Proposed price.** The proposed price must not exceed the applicable area loan limit, as described in Paragraph 6.6.

9.5 PRELIMINARY APPROVAL

In general, the Loan Originator must review the application materials within 7 days of receiving a completed application. Staff is encouraged to use online resources, such as the county assessor or taxing authority, to verify property details provided in the conditional commitment application package.

A. Ordering an Appraisal

If the document review indicates that all of the requirements outlined in Paragraph 9.4 can reasonably be met (except for the site requirements which will be reviewed upon receipt of an appraisal), an appraisal should be ordered in accordance with the guidelines set forth in Paragraph 5.17. Because the application fee cannot be refunded after the appraisal is conducted, the appraisal should never be ordered until the document review is complete.

B. Site Approval and Responsibility for Environmental Reviews

Upon receipt of the appraisal, the Loan Originator should ensure that construction has not begun and that the site meets the requirements of Section 1 of Chapter 5. In addition, the Loan Originator will initiate an environmental review as discussed in Section 3 of Chapter 5. Unless there are unresolved environmental issues, the Loan Originator must determine within 7 days of receipt of the appraisal, whether the application for a conditional commitment should be accepted or rejected.

If there are environmental issues that will take additional time to resolve, the Loan Originator must inform the conditional commitment applicant about the outstanding issues.

C. Rejecting the Application for Conditional Commitment

If any of the requirements outlined in Paragraph 9.4 are not met, the Loan Originator must deny the application for a conditional commitment. The documents attached to the application must be returned to the applicant, along with a letter explaining why the application was not approved. The application, a copy of the supporting documents, and a copy of the rejection letter should be retained in the conditional commitment applicant's file.

If no appraisal has been conducted, the letter should indicate that the application fee will be refunded separately. In this case, the Loan Originator should provide the National Financial and Accounting Operations Center (NFAOC) with the information needed to send the refund check. If the application was not approved because of the Loan Originator's assessment of the applicant's experience or financial capacity, the letter should specify that the applicant has the right to appeal the decision to the National Appeals Division (NAD).

9.6 FINAL APPROVAL

The final decision about approving an application for a conditional commitment depends on the results of the appraisal. The proposed selling price listed on the conditional commitment application must not exceed the property's appraised value or the area loan limit, whichever is lower.

A. Proposed Price Too High

If the proposed selling price exceeds the property's appraised value, the Loan Originator must notify the conditional commitment applicant that the application cannot be approved unless the selling price is reduced. If the conditional commitment applicant decides to reduce the proposed price, this decision must be provided to the Loan Originator in writing; the Loan Originator cannot make changes based on verbal instructions. If the conditional commitment applicant elects not to reduce the proposed price, the documents attached to the application should be returned along with a letter explaining why the application was not approved.

B. Proposed Price Acceptable

If all of the eligibility requirements are met and the proposed price is acceptable, a conditional commitment can be issued. The Loan Approval Official should complete and sign Form RD 1944-11, Conditional Commitment, and forward a copy to the conditional commitment applicant.

9.7 DURATION OF COMMITMENT

Conditional commitments are valid for 12 months from the date of issuance. At the conditional commitment contractor's request, the Loan Approval Official may extend the commitment period for up to an additional 6 months if there have been unexpected delays in construction caused by such factors as bad weather, materials shortages, or marketing difficulties. In order to document the extension, the Loan Originator should modify Form RD 1944-11, Conditional Commitment.

A conditional commitment will be canceled if construction does not begin within 60 days after the commitment is issued, unless the Loan Approval Official determines that there were unavoidable circumstances that justified the delay. The Agency's construction inspector, or other qualified inspector as set forth in Section 6 of Chapter 5, should visit the site to verify that construction has begun. If the inspector finds that construction has not begun, the Loan Originator should send a letter to the contractor indicating that the conditional commitment has been canceled and specifying the reasons.

9.8 CHANGES IN PLANS, SPECIFICATIONS, OR COMMITMENT PRICE

The Loan Approval Official may approve changes in project plans, specifications, or commitment price if the conditional commitment contractor requests the changes in writing, and the conditions discussed below have been met.

- The property must continue to meet applicable development standards after any changes;
- If a change is requested after a loan applicant has exercised an option on the property, the change may be approved only if the loan applicant and the contractor both agree to the changes in writing;
- Any increase in costs must have been caused by factors beyond the control of the commitment holder, such as an unforeseeable materials shortage;

- The increased commitment price must remain at or below the lesser of the property's appraised value or the applicable area loan limit; and

- If the proposed change will alter the purpose, operation, location, or design of the project as originally approved, the environmental review for the project must be amended (or a new environmental review completed) prior to approval of the change.

Changes to plans and specifications must be noted on Form RD 1924-25, Plan Certification.

If an approved change will result in an increase in the conditional commitment price that exceeds the original appraised value, a revised appraisal report (to be paid for by the conditional commitment contractor) should be ordered by the Agency, and Form RD 1944-11, Conditional Commitment, should be revised based upon the latest appraisal. The revised commitment should be initialed and dated by the Loan Approval Official, and initialed by the commitment holder. A new appraisal is not required if the new price does not exceed the original appraised value.

9.9 PROPERTY INSPECTIONS

Property inspections will be performed according to the procedures for new construction and major rehabilitation set forth in Section 6 of Chapter 5. If the contractor fails to correct any deficiencies detected during an inspection or to complete the work according to previously approved plans and specifications, the Loan Approval Official may cancel the conditional commitment.

9.10 BUILDER'S WARRANTY

The builder or seller, as appropriate, must execute either Form RD 1924-19, Builder's Warranty, or provide a 10-year insured warranty when construction is completed. Builder's warranties are discussed in Paragraph 5.24.

9.11 CONDITIONAL COMMITMENTS INVOLVING PACKAGING OF APPLICATIONS

A conditional commitment may be made to a seller, builder, or dealer-contractor who packages a loan application for a prospective purchaser. In cases where the dwelling is to be constructed for sale to a specific eligible applicant, all of the following conditions listed below must be met.

- The conditional commitment will not be approved until the applicant's loan has been approved.

- Construction will not begin until funds are obligated for the loan. Exceptions may be made when it appears likely that funding will be forthcoming and as long as the Agency's lien priority is not jeopardized. The sales agreement must indicate that the loan has been approved, but not funded and must provide that if the loan is not closed within 90 days of the date of approval, the contractor may terminate the sales agreement and sell the property to another party. If the sales agreement is terminated, the conditional commitment will be honored for another eligible loan applicant for the remaining period of the commitment.

- The Agency loan will be closed only after the dwelling is constructed or the required rehabilitation completed, and final inspection has been made.

SECTION 2: SPECIAL FORMS OF OWNERSHIP

9.12 OVERVIEW

This section discusses processing requirements for loans for dwellings with three types of special ownership: condominiums, community land trusts, and planned unit developments. Unless otherwise indicated in this section, the same basic requirements for loan approval discussed elsewhere in this handbook apply to these loans, along with the additional requirements specified here. Documents related to the establishment and operation of community land trusts must be reviewed by the Office of the General Counsel (OGC) to determine whether the Agency's rights are sufficiently protected. Other forms of ownership will be referred to OGC when the Loan Approval Official determines it necessary to ensure the Agency's rights are protected.

9.13 LOANS FOR CONDOMINIUM UNITS [7 CFR 3550.71]

Loans may be made to finance the purchase of dwellings in condominium developments if the conditions described in this paragraph are met, and the applicant and the property otherwise meet the requirements outlined in this handbook.

A. Definition

A condominium is defined as a real estate project in which each unit owner has title to a unit, an undivided interest in the common areas of the project, and sometimes the exclusive use of certain limited common areas. The project may include dwelling units in detached, semi-detached, row, garden-type, low or high rise structures.

B. Financing Approval

Loans cannot be approved for condominium units unless the project has been approved for financing by:

- Department of Housing and Urban Development (HUD),
- Federal National Mortgage Association (Fannie Mae),
- Federal Home Loan Mortgage Corporation (Freddie Mac),
- Department of Veterans Affairs (VA),
- State Housing Finance Agency (SHFA),

The applicant must submit documentation from the appropriate agency showing that the project is acceptable for financing. HUD approved projects can be found by conducting a search for condominium on their website at http://portal.hud.gov/hudportal/HUD. The Fannie Mae Project Eligibility Review Service (PERS) website can be found at: https://www.fanniemae.com/singlefamily/project-eligibility-review-service. Freddie Mac does not currently publish a list of approved projects on their website. VA approved projects can be found by conducting a search through the Veterans Information Portal at https://vip.vba.va.gov/portal/VBAH/Home.

If the project has not been approved by one of the sources listed above, the State Director may approve the specific condominium unit in accordance with Attachment 9-C, Condominium Questionnaire. This type of approval represents a greater risk to the Agency, and should be used with caution.

C. Condominium Status

Agency financing will not be considered for any condominium regardless of how the project was approved unless, at the time of loan approval, the status of the condominium projects meets the conditions listed below.

- At least 70 percent of the units must have been sold. (Multiple purchases of condominium units by one owner are counted as one sale when determining if the sales requirements have been met.)

- No more than 15 percent of the unit owners can be more than 1 month delinquent in payment of homeowners' association dues or assessments at the time the Agency loan is approved.

- The condominium project must consist of a structure or structures containing four or more units and must not contain any commercial space. Units in a rental project which was converted to condominium ownership are not eligible.

- In addition, condominium projects that are considered ineligible by HUD, Fannie Mae, Freddie Mac, or VA, such as condominium hotels, timeshares or houseboats, etc., are not eligible for Agency financing.

D. Protection of Agency Rights and Lien Position

A loan may not be approved unless condominium documents preserve the rights and lien position of the Agency described below.

1. Right of First Refusal

Any right of first refusal in the condominium documents must not impair the rights of the Agency to: (1) foreclose or take title to a condominium unit under the remedies in the mortgage; (2) accept a deed in lieu of foreclosure if a mortgagor defaults; and (3) sell or lease a unit it acquires.

2. **Agency Obligation for Charges**

If the Agency obtains title to a condominium unit under the remedies in its mortgage or through foreclosure, it will not be liable for more than 6 months of the unit's unpaid regularly budgeted dues or charges accrued before it acquired title to the unit. The homeowners' association's lien may include the cost of collecting unpaid dues.

All taxes, assessments, and charges that may become liens prior to the first mortgage under local law must relate only to the individual condominium units and not to the condominium project as a whole.

3. **Provisions in the Case of Condemnation or Substantial Loss**

In the case of condemnation or substantial loss to the units or common elements of the condominium project, unless at least 51 percent of the first mortgagees of the individual condominium units have given their consent, the homeowners' association may not:

- By act or omission seek to abandon or terminate the condominium project;
- Change the pro rata interest or obligations of any condominium unit in order to levy assessments or charges, allocate hazard insurance proceeds or condemnation awards, or determine the share of ownership in the common elements;
- Partition or subdivide any condominium unit;
- Seek to abandon, partition, subdivide, encumber, sell, or transfer the common elements by act or omission (the granting of easements for public utilities or other public purposes consistent with the intended use of the common elements by the condominium project is not a transfer within the meaning of this clause); or
- Use hazard insurance proceeds for losses to any condominium property (whether units or common elements) for purposes other than the repair, replacement, or reconstruction of the condominium property

- The condominium documents must not give the condominium unit owner (or any other party) priority over the Agency's right to insurance proceeds or condemnation awards for losses to, or taking of, condominium units or common elements.

- The condominium documents must not give the condominium unit owner (or any other party) priority over the Agency's right to insurance proceeds or condemnation awards for losses to, or taking of, condominium units or common elements.

E. Closing Documents

Form RD 3550-10, Condominium Rider, must be used to amend and supplement the security instruments to accommodate special requirements that apply because the owners' association may hold title to the property. For example, hazard insurance may be paid by the owners' association, rather than by the borrower.

Condominiums are a private residence owned by an individual homeowner/family in a building with multiple units. Because there are multiple units located within one structure, the condominium association purchases a Master Policy, which insures the structure against loss. A copy of this policy must be provided at closing, and annually thereafter. This policy, however, does not provide "studs-in" or contents coverage. If the unit owner opts to purchase this coverage under a HO-6 policy, they are responsible for payment of the premium, as the Agency does not include this premium in escrow. Condos are escrowed for taxes only.

F. Association Dues

The Agency also does not include the monthly fees or dues for the condo association in escrow. The unit owner is responsible for that payment. In the event the unit owner becomes delinquent on their dues and the association places a lien on the property, NFAOC's Escrow Department may pay delinquent dues and a fee will be amortized on the account.

9.14 LOANS FOR UNITS IN A COMMUNITY LAND TRUST

Loans may be made to finance the purchase of dwellings located on land owned by community land trusts if the conditions described in this paragraph are met, and the applicant and the property otherwise meet the requirements outlined in this handbook. Documents related to the establishment and operation of community land trusts must be reviewed by the Office of the General Counsel (OGC) to determine whether the Agency's rights are sufficiently protected. These documents should include, but are not limited to: articles of incorporation and bylaws; organizational resume or history summarizing the organizations experience in affordable housing; list of staff responsible for the community land trust's homeownership program; current annual report; and ground lease.

Ground Leases. Some common issues which should be addressed in a ground lease include, but are not limited to:

- Duration of lease (typically 99 years);
- Lease fee;

- Use of the leased land (residential use only, maintenance of common areas, etc.);
- Taxes and assessments;
- Improvements to the home and/or land;
- Financing (permitted mortgages, excess sale proceeds);
- Liability, insurance, damage and destruction, eminent domain;
- Transfer/Sale of the home;
- Default (must contain language that ensures that all restrictions relating to community land trusts will automatically and permanently terminate upon foreclosure or Agency acceptance of a deed in lieu of foreclosure);
- Mediation / Arbitration
- Other General Provisions

When reviewing a ground lease, staff may also find it helpful to compare the submitted lease to other model leases available through National Community Land Trust Network; which can be searched at http://cltnetwork.org.

A. Definition

A community land trust is defined as a private nonprofit community housing development organization that owns and leases land under a long-term ground lease to low- and moderate-income households, at affordable prices. The organization must:

- Be organized under State or local laws;
- Have no part of its net earnings benefiting any member, founder, contributor, or individual;
- Comply with standards of financial accountability;
- Have among its purposes significant activities related to the provision of decent housing that is affordable to low- and moderate-income people;

- Maintain, through significant representation on the organization's governing board and otherwise, accountability to low-income community residents with regard to decisions on the design, sitting, development, and management of affordable housing;

- Have its corporate membership open to any adult resident of a particular geographic area specified by the by-laws of the organization; and

- Is established to carry out all of the following activities:

  ◊ Acquire parcels of land, held in perpetuity, primarily for conveyance under long-term ground leases;

  ◊ Transfer ownership of any structural improvements located on such leased parcels to the lessees; and

  ◊ Retain a pre-emptive option to purchase any such structural improvements at a price determined by a formula that is designed to ensure that the improvement remains affordable to low- and moderate-income people in perpetuity.

B. Preservation of Agency Rights and Lien Position

The relevant legal documents must contain language that ensures that all restrictions relating to community land trusts will automatically and permanently terminate upon foreclosure or Agency acceptance of a deed in lieu of foreclosure. Language that merely subordinates the restrictions to the mortgage is not sufficient -- the restrictions also cannot be forced upon subsequent purchasers following resale by the Agency.

C. Restrictions on Resale Price

Restrictions on the limits to the resale price of the property or recapture of equity are permitted. A maximum sales price may be imposed or the sales proceeds due the borrower may be limited, with any excess payable to a governmental body or nonprofit organization for reuse in the community land trust. If resale restrictions include income limits for prospective buyers, the limits may be as restrictive as applicable Direct income limits in effect at the time of the purchase agreement, but must not be more restrictive. When such restrictions apply, the requirements listed below must be met.

- The borrower must be permitted to recover at least the original purchase price, sales commission and other typical selling expenses, and cost of capital improvements made by the borrower, when the borrower sells the property.

- If the property has depreciated such that the original purchase price was greater than the current market value, the borrower must be permitted to recover at least the current market value (less typical selling expenses) when the borrower sells the property.

- The borrower must be permitted to recover a reasonable amount of appreciation as determined by the Agency below. Appreciation is measured by the difference between the original purchase price and the actual price at which the property is resold.

- If the program permits the borrower to sell the property at market value but recaptures part of the equity, the Agency considers a reasonable share of appreciation to be at least 50 percent. The Agency does not object to situations whereby the borrower's share of appreciation is on a sliding scale beginning at 0, provided that within 2 years the homeowner would be permitted to retain 50 percent of the appreciation.

- If the program sets a maximum sales price restriction, the borrower must be permitted to retain 100 percent of the appreciation.

- Other arrangements for sharing appreciation may be approved by the State Director.

D. Right of First Refusal

One method commonly used to ensure that housing remains part of an affordable housing program is for the community land trust to hold a right of first refusal or an option right that can be exercised when the borrower proposes to sell the home to a purchaser not eligible for the program benefits. Such a provision is permitted if all of the requirements listed below are met.

- The rights must be held only by a governmental body or eligible nonprofit organization and exercised by them or someone they have identified as an eligible purchaser.

- Any right must be exercised within 45 days after the holder of these rights may exercise them (for example, the rights are often triggered by a notice of sale from the borrower).

- **Payment Subsidy Recapture**

  The borrower's ability to repay payment subsidies may be affected by the resale restrictions of the community land trust. Upon closing, the lease agreement and/or any other document(s) containing information about the community land trust's resale restrictions should be sent to NFAOC with the other applicable closing documents, to ensure accurate subsidy recapture calculations in the future.

Case-by-case exceptions to Agency recapture requirements may be approved by the Administrator if necessary to accommodate the restrictions imposed by the land trust.

E. Appraisals

A property located on a site owned by a community land trust must be appraised as a leasehold interest, with thorough analysis of the ground lease, and resale and other restrictions which may apply.

Because the community land trust may subsidize the sales price to a borrower, the sales price may be significantly less than the market value of the leasehold interest in the property. The appraised value of the leasehold interest must be accurately developed by the appraiser because the resale restrictions, as well as other restrictions that may be included in the ground lease, can also affect the value of the property.

The appraiser must use a three-step process to develop an opinion of value.

- Fee Simple Value = Sales Comparison Analysis Approach.

  In determining the fee simple value of the subject property, the appraiser must use comparable sales of similar properties that are owned as fee simple estates. If this is not possible, the appraiser may use sales of properties that are subject to other types of leasehold estates as long as he or she makes appropriate adjustments, based on the terms of their leases, to reflect a fee simple interest.

  When the community or neighborhood has sales activity for other leasehold estates held by a community land trust, the appraiser must discuss them in the appraisal report, but must not use them as comparable sales because, in all likelihood, the sales prices will have been limited by restrictions in the ground lease.

- Value of Leased Fee = Ground Rent / Capitalization Rate. The appraiser must provide support for the capitalization rate selected.

- Value of Leasehold = Value of Fee Simple – Value of Leased Fee

9.15 PLANNED UNIT DEVELOPMENTS

Loans may be made to finance the purchase of dwellings located in Planned Unit Developments (PUD) if the conditions described in this paragraph are met and the applicant and property otherwise meet the requirements outlined in this handbook.

A. Definition

A Planned Unit Development is a project or subdivision that includes common property that is owned and maintained by a homeowners' association for the benefit of and use by the individual PUD unit owners. A PUD can consist of detached single family homes, condominiums (which must also meet the requirements of Paragraph 9.13 of this Handbook), or townhomes. Certain properties may have the physical appearance of a townhome, but are owned as a condominium; in which case the requirements of Paragraph 9.13 of this Handbook must be followed.

B. Preservation of Agency Rights and Lien Position

The Owners Association must be controlled by the homeowners and any restrictions imposed on the owners in the PUD Constituent Documents must not jeopardize the Agency's rights or lien position. The "Constituent Documents" are the declaration, articles of incorporation, trust instrument or any equivalent document which creates the Owners Association and any by-laws or other rules or regulations of the Owners Association.

C. Closing Documents

Form RD 3550-11, "Planned Unit Development Rider" must be used to amend and supplement the security instrument to accommodate special requirements. For example the Owners' Association may maintain a "master" or "blanket" Hazard Insurance Policy.

SECTION 3: MANUFACTURED HOMES [7 CFR 3550.73]

9.16 AUTHORIZED LOAN PURPOSES

A. Definition

Manufactured homes are built to different construction standards and codes and have different inspection requirements than those manufactured structures generally referred to as "modular" or "panelized" homes. The major difference between manufactured homes and modular or panelized homes is the construction standard or code to which they are built and the inspection requirements. Modular or panelized homes, as described in Exhibit B of RD Instruction 1924-A, are not affected by the requirements of this section.

B. Authorized Loan Purposes

When a real estate mortgage or deed of trust covers the unit **and** the site, Section 502 loans may be used to finance the following:

- Site development work that conforms to the requirements of RD Instruction 1924-A;
- Purchase of an eligible new unit, transportation and set-up costs, and purchase of an eligible site if not already owned by the applicant;
- Subsequent loans for equity or repair in conjunction with an assumption or Real Estate Owned (REO) sale; and
- Subsequent loans for repair of units that are financed with Section 502 loans.

C. Loan Restrictions

The Agency will not use Section 502 loan funds to finance:

- The purchase of an existing unit and site, unless the property is already financed with a Section 502 loan or is Agency REO property;
- The purchase of a site without also financing the unit;
- A unit that does not meet Federal Manufactured Home Construction and Safety Standards (FMHCSS);A unit that does not meet or exceed the FMHCSS thermal requirements for the county in which the home is to be located (see Attachment 9-B, Thermal Requirements for a Manufactured Home);

- Alteration or remodeling of the unit when the initial loan is made, unless repairs are needed in conjunction with an assumption or REO sale;

- Repairs not associated with a transfer, REO sale, or unit that is already financed with a Section 502 loan;

- Existing debt owed by the applicant; or

- Furniture, including movable articles of personal property such as drapes, beds, bedding, chairs, sofas, divans, lamps, tables, televisions, radios, stereo sets, and other similar items of personal property (furniture does not include wall-to-wall carpeting, refrigerators, ovens, ranges, washing machines, clothes dryers, heating or cooling equipment, or other similar equipment).

9.17 DEALER-CONTRACTOR REQUIREMENTS

No loans will be made on a manufactured home sold or serviced by any entity that is not an approved dealer-contractor. Once the applicant has submitted the name of the selected dealer-contractor, the Loan Originator should check the State Office's list of approved dealer-contractors. If the dealer-contractor is approved, the Loan Originator should notify the applicant of what information must be submitted to the Agency for review and approval.

If the dealer-contractor is not approved, the Loan Originator should offer the applicant the opportunity to select another dealer-contractor who is on the approved list, or to request that the Loan Originator inform the dealer-contractor about the Agency's procedures for approval.

The applicant and the dealer-contractor will be notified of the Agency's thermal requirements for the county in which the home is to be located. Rural Development accepts the FMHCSS Uo Value Zones for new manufactured homes financed by the Agency. Attachment 9-B lists the FMHCSS Uo Value Zones for each state, by county, and Puerto Rico.

All new manufactured homes built to the FMHCSS are provided with a Comfort Heating and Cooling Certificate. This certificate (which may be combined with the Data Plate) is affixed in a permanent manner near the main electrical panel or other readily accessible and visible location inside the unit. The certificate specifies to FMHCSS Uo Value zone of the home as Zone 1, 2 or 3. (The U/O Value Zone Map on the certificate does not apply.) An example of the Comfort Heating and Cooling Certificate is provided as Attachment 9-A.

An entity may apply to become an approved dealer-contractor by submitting Form RD 1944-5, Manufactured Housing Dealer-Contractor Application, credit reports and supplementary data sources, such as financial statements and tax returns should be used to verify or determine employment, income, held assets and credit history. An entity that owns multiple locations within a state, and will be responsible for meeting all of the Agency requirements for each branch location listed on the application needs only submit one application. The entity must identify sales personnel, sales area, and number of branches as well as the addresses of all branch locations to be covered by the individual application. Independent retailers of manufactured homes are required to obtain individual approval in their company name. To qualify to participate, a dealer-contractor must be: (1) financially responsible; (2) qualified and equipped to set up the unit on a site-built permanent foundation and develop the site; and (3) willing to provide a warranty acceptable to the Agency.

The evaluation of applications for dealer-contractor status involves a joint effort by Loan Originators, Loan Approval Officials, and State Directors.

When evaluating these applications, the Loan Originator should perform the following tasks.

- Maintain an operational file for each dealer-contractor who submits Form RD 1944-5 and a CPA prepared financial statement.

- Obtain a Comprehensive Commercial Credit and Business Owner (CCCBO) Combo Report on for-profit individuals, partnerships or corporations through the appropriate Regional Coordinator assigned to order the CCCBO Combo Report. For non-profit organizations, a credit report will only be obtained for the organization and not for any of the principals. Do not use UniFi to order individual reports.

- Make direct checks on trade and bank references and check with the local Better Business Bureau.

- Inspect the dealer's place of business to determine its permanency and the adequacy of available equipment.

- Obtain copies of brochures, descriptive literature, guarantees, sales contracts, and price lists.

- Determine that the dealer-contractor has the necessary equipment and experience to perform or subcontract all site development work. If the firm uses subcontractors, obtain the names of the subcontractors and their qualifications. A field inspection of recently-developed sites and set-ups is desirable in determining whether the dealer-contractor has the necessary experience.

- Carefully analyze the collected information to determine if the dealer-contractor is able to provide the full service of sales, service, erection, and warranty of manufactured units and developing sites for them. Based on this analysis, the Loan Originator should develop a recommendation with supporting documentation as to whether or not the dealer-contractor is acceptable.

- If necessary, the Loan Originator should maintain a complaint file to establish a basis for limiting future business with the dealer-contractor.

The Loan Approval Official should review the Loan Originator's recommendations and forward them, with any additional comments, to the State Director for review.

The State Director will make the decision on the dealer-contractor's acceptability and, if applicable, issue a letter of acceptance. The State Director also will issue a list of acceptable dealer-contractors in the State. The list of dealer-contractors should include only acceptable dealer-contractors that are active. Active is defined as a dealer-contractor who has sold a manufactured home within the last two years that was financed by a Rural Development direct or guaranteed loan borrower. Dealer-contractors that have not been active in a two year period may be removed from the active list of approved dealer-contractors. If the State Director determines that the dealer-contractor is not acceptable, appeal rights will be granted. Any dealer-contractor determined to be unacceptable may reapply for acceptance at any time the dealer-contractor has reason to believe the conditions leading to the determination have been removed.

9.18 PROCESSING PROCEDURES

A. Submission Requirements

In addition to the documents required for a standard Section 502 loan, the applicant must submit the following before the loan can be approved:

- A plot plan and site development plan as described under RD Instruction 1924-A, Exhibits C and J;
- A foundation plan per RD Instruction 1924-A, Exhibit C adapting manufacturer's design to the specific site conditions. Specific site conditions that may require modification may include slope, soils type, frost depth and requirements of FD adopted code and/or local codes.
- Certification of site and foundation designs on Form RD 1924-25, Plan Certification;
- An itemized cost breakdown of the total package, including the base unit, eligible options, site development, installation, set up, lot costs, and any credit for wheels and axles;
- A statement signed by the dealer-contractor indicating that any cash payment or rebate as a result of the purchase will be deducted from the price of the unit and not paid to the applicant; and
- A statement signed by the dealer-contractor that the proposed cost is the full price of the unit and all development activities, and if furniture is being purchased by the applicant with other funds, that a lien will not be filed against the Agency's security property.

B. Appraisal Techniques

The site and unit must be appraised before loan approval, using normal single family residential appraisal techniques. Since other manufactured units and sites provide the most similar comparables, every effort must be made to obtain such comparables, even if their distance from the subject property is greater than preferred. If units are not available within a reasonable distance, the appraiser may use homes other than manufactured homes, after adjusting for factors such as location, construction material, size, and quality.

C. Loan Rates and Terms

The interest rates for manufactured homes are the same as for other real estate loans made with Section 502 loan funds, but the maximum loan term is 30 years. Applicants for Section 502 loans on manufactured homes may receive payment subsidy, if they are eligible.

9.19 CONSTRUCTION AND SITE REQUIREMENTS

The unit must meet the requirements for new dwellings contained in Section 2 of Chapter 5 and must have a floor area of 400 square feet or more, and a width of 12 feet or more for a single-wide unit, and 20 feet or more for a double-wide unit. In addition, the unit must meet the Agency's Thermal Performance Standards as set forth in RD Instruction 1924-A, for the winter degree day zone where the unit will be located. Finally, site development and set up must conform to Exhibit C and Exhibit J of RD Instruction 1924-A, and the environmental requirements of RD Instruction 1970 series "Environmental" must be met. Development under the Mutual Self-Help and borrower construction methods is not permitted for manufactured homes.

9.20 LOAN CLOSING

In general, loan closing procedures are the same whether the Section 502 loan is made for the purchase of a manufactured home or another type of single family home. However, the Loan Originator should be aware of the following requirements.

A. Contract Requirements

The dealer-contractor must sign Form RD 1924-6, Construction Contract, which will cover both the unit and site development work. Multiple contracts are prohibited, but a dealer-contractor may use subcontractors if the dealer-contractor remains solely responsible for all work under the contract. Payment for all work will be made in accordance with Form RD 1924-6 and RD Instruction 1924-A, except that no payment will be made for materials or property stored on site (for example, payment for a unit will be made only after it is permanently attached to the foundation).

B. Lien Release Requirements

All firms furnishing materials or labor in connection with the contract must sign Form RD 1924-10, Release by Claimants, except for the manufacturer of the unit. The manufacturer of the unit must furnish an executed manufacturer's certificate of origin indicating that the unit is free and clear of all legal encumbrances. Form RD 1924-10 and the manufacturer's certificate of origin should be filed in the case file.

C. Warranty Requirement

A dealer-contractor must provide the borrower with a warranty in accordance with the provisions of RD Instruction 1924-A. The warranty must identify the unit by serial number. The dealer-contractor must certify that the unit substantially complies with the plans and specifications, and the home has sustained no hidden damage during

transportation. If the home was manufactured in separate sections, the dealer-contractor also should certify that the sections were properly joined and sealed according to the manufacturer's specifications. The dealer-contractor must furnish the applicant with a copy of all manufacturers' warranties.

D. Real Estate Tax Requirement

Whether manufactured homes are considered personal or real property may vary state-to-state. When the loan closes, the unit and site must be taxed as real estate by the jurisdiction in which it is located, if such taxation is permitted under applicable law.

ATTACHMENT 9-A

Manufacturer Address

Plant Number

Date of Manufacture | HUD Label No.(s)

Manufacturer's Serial Number and Model Unit Designation

Design Approval by (D.A.P.I.A.)

This manufactured home is designed to comply with the federal manufactured home construction and safety standards in force at time of manufacture. (For additional information, consult owner's manual.)

The factory installed equipment includes:

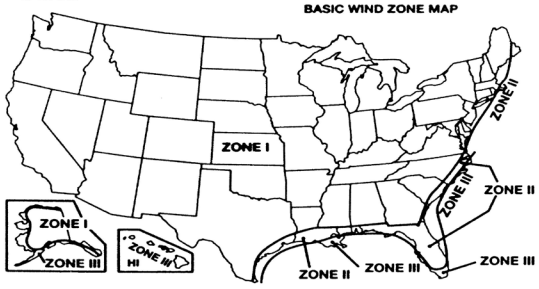
Equipment	Manufacturer	Model Designation
For heating		
For air cooling		
For cooking		
Refrigerator		
Water Heater		
Washer		
Clothes Dryer		
Dishwasher		
Garbage Disposal		
Fireplace		

HOME CONSTRUCTED FOR ☐ Zone I ☐ Zone II ☐ Zone III

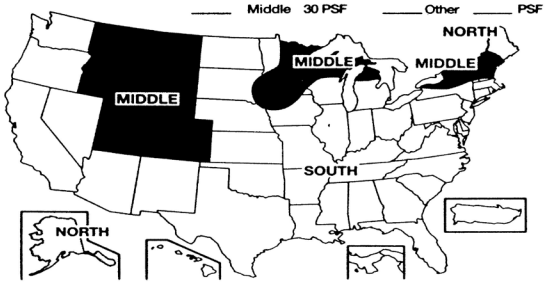
This home has not been designed for the higher wind pressure and anchoring provisions required for ocean/coastal areas and should not be located within 1500' of the coastline in Wind Zones II and III, unless the home and its anchoring and foundation system have been designed for the increased requirements specified for Exposure D in ANSI/ASCE 7-88.

This home has____ has not____ been equipped with storm shutters or other protective coverings for windows and exterior door openings. For homes designed to be located in Wind Zones II and III, which have not been provided with shutters or equivalent covering devices, it is strongly recommended that the home be made ready to be equipped with these devices in accordance with the method recommended in manufacturers printed instructions.

BASIC WIND ZONE MAP



DESIGN ROOF LOAD ZONE MAP ____ North 40 PSF ____ South 20 PSF ____ Middle 30 PSF ____ Other ____ PSF



COMFORT HEATING

This manufactured home has been thermally insulated to conform with the requirements of the federal manufactured home construction and safety standards for all locations within U/O value zone _____ . (See map at bottom)
Heating equipment manufacturer and model (See list at left).
The above heating equipment has the capacity to maintain an average 70° F temperature in this home at outdoor temperatures of _____°F.
To maximize furnace operating economy, and to conserve energy, it is recommended that this home be installed where the outdoor winter design temperature (97 1/2%) is not higher than _____ degrees Fahrenheit.
The above information has been calculated assuming a maximum wind velocity of 15 mph at standard atmospheric pressure.

COMFORT COOLING

☐ **Air conditioner provided at factory (Alternate I)**

Air conditioner manufacturer and model (see list at left).

Certified capacity_____ B.T.U./hour in accordance with the appropriate air conditioning and refrigeration institute standards.
The central air conditioning system provided in this home has been sized assuring an orientation of the front (hitch end) of the home facing _____ . On this basis the system is designed to maintain an indoor temperature of 75° F when outdoor temperatures are _____°F dry bulb and _____°F wet bulb.

The temperature to which this home can be cooled will change depending upon the amount of exposure of the windows of this home to the sun's radiant heat. Therefore, the home's heat gains will vary dependent upon its orientation to the sun and any permanent shading provided. Information concerning the calculation of cooling loads at various locations, window exposures and shadings are provided in Chapter 22 of the 1989 edition of the ASHRAE Handbook of Fundamentals.

Information necessary to calculate cooling loads at various locations and orientations is provided in the special comfort cooling information provided with this home.

☐ **Air conditioner not provided at factory (Alternate II)**
The air distribution system of this home is suitable for the installation of central air conditioning.

The supply air distribution system installed in this home is sized for a manufactured home central air conditioning system of up to _____ B.T.U./hr. rated capacity which are certified in accordance with the appropriate air conditioning and refrigeration institute standards, when the air circulators of such air conditioners are rated at 0.3 inch water column static pressure or greater for the cooling air delivered to the manufactured home supply air duct system.
Information necessary to calculate cooling loads at various locations and orientations is provided in the special comfort cooling information provided with this manufactured home.

☐ **Air conditioning not recommended (Alternate III)**
The air distribution system of this home has not been designed in anticipation of its use with a central air conditioning system.

To determine the required capacity of equipment to cool a home efficiently and economically, a cooling load (heat gain) calculation is required. The cooling load is dependent on the orientation, location and the structure of the home. Central air conditioners operate most efficiently and provide the greatest comfort when their capacity closely approximates the calculated cooling load. Each home's air conditioner should be sized in accordance with Chapter 22 of the American Society of Heating, Refrigerating and Air Conditioning Engineers (ASHRAE) Handbook of Fundamentals 1989 edition, once the location and orientation are known.

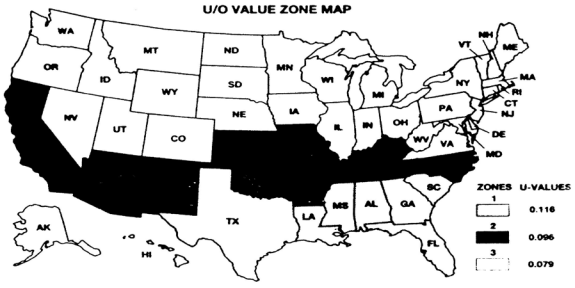
INFORMATION PROVIDED BY THE MANUFACTURER NECESSARY TO CALCULATE SENSIBLE HEAT GAIN

Walls (without windows and doors) ..... "U"_____
Ceilings and roofs of light color ..... "U"_____
Ceilings and roofs of dark color ..... "U"_____
Floors ..... "U"_____
Air ducts in floor ..... "U"_____
Air ducts in ceiling ..... "U"_____
Air ducts installed outside the home ..... "U"_____

The following are the duct areas in this home.

Air ducts in floor ..... _____ sq. ft.
Air ducts in ceiling ..... _____ sq. ft.
Air ducts outside the home ..... _____ sq. ft.

U/O VALUE ZONE MAP



FD-69 ©Doc-O-Art, Inc. REV. 10/91

SAMPLE COMFORT HEATING AND COOLING CERTIFICATE

ATTACHMENT 9-B

THERMAL REQUIREMENTS FOR MANUFACTURED HOMES

BACKGROUND: The minimum thermal requirement for new manufactured homes acceptable to Rural Development is the Federal Manufactured Home Construction and Safety Standard (FMHCSS) Uo Value Zone(s) indicated on the Comfort Heating and Cooling Certificate for the following States:

NOTE: For a FMHCSS Uo Value Zone 1 or higher, higher means a FMHCSS Uo Value Zone 2 or 3. For a FMHCSS Uo Value Zone 2 or higher, higher means a FMHCSS Uo Value Zone 3. Also, Attachment 9-A is an example of a Data Plate containing the Comfort Heating and Cooling Certificate; however, the U/O Value Zone Map on the Certificate does not apply to Rural Development. Rural Development will continue to use Attachment 9-B.

ALABAMA

FMHCSS Uo Value Zone 1 or higher is acceptable for all counties in the State.

ALASKA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

ARIZONA

FMHCSS Uo Value Zone 2 or higher is acceptable for the following counties:

Cochise	Greenlee	Mohave	Santa Cruz
Gila	La Paz	Pima	Yuma
Graham	Maricopa	Pinal	

FMHCSS Uo Value Zone 3 is acceptable for all other counties.

ARKANSAS

FMHCSS Uo Value Zone 2 or higher is acceptable for all counties in the State.

CALIFORNIA

FMHCSS Uo Value Zone 2 is acceptable for the following counties:

Alpine	Modoc	Nevada	Sierra
Lassen	Mono	Plumas	Siskiyou

FMHCSS Uo Value Zone 2 or higher is acceptable for all other counties.

COLORADO

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

DELAWARE / MARYLAND

FMHCSS Uo Value Zone 3 is acceptable for all counties in both States.

FLORIDA / VIRGIN ISLANDS

FMHCSS Uo Value Zone 1 or higher is acceptable for the following Florida counties and the Virgin Islands:

Brevard	Hardee	Levy	Palm Beach
Broward	Hendry	Manatee	Pasco
Charlotte	Hernando	Marion	Pinellas
Citrus	Highlands	Martin	Polk
Collier	Hillsborough	Monroe	Sarasota
Dade	Indian River	Okeechobee	Seminole
DeSoto	Lake	Orange	St Lucia
Glades	Lee	Osceola	Sumter
			Volusia

FMHCSS Uo Value Zone 1 or higher is acceptable for all other counties.

GEORGIA

FMHCSS Uo Value Zone 1 or higher is acceptable for all counties in the State.

HAWAII

FMHCSS Uo Value Zone 1 or higher is acceptable for all counties in the State.

IDAHO

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

ILLINOIS

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

INDIANA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

IOWA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

KANSAS

FMHCSS Uo Value Zone 2 or higher is acceptable for the following counties:

Barber	Cowley	Harper	Neosho
Chautauqua	Crawford	Labette	Sumner
Cherokee	Elk	Montgomery	Wilson
Comanche			

FMHCSS Uo Value Zone 2 is acceptable for all other counties.

KENTUCKY

FMHCSS Uo Value Zone 2 or higher is acceptable for all counties in the State.

LOUISIANA

FMHCSS Uo Value Zone 1 or higher is acceptable for all counties in the State.

MAINE

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

MASSACHUSETTS / RHODE ISLAND / CONNECTICUT

FMHCSS Uo Value Zone 3 is acceptable for all counties in the three States.

MICHIGAN

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

MINNESOTA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

MISSISSIPPI

FMHCSS Uo Value Zone 1 or higher is acceptable for all counties in the State.

MISSOURI

FMHCSS Uo Value Zone 2 or higher is acceptable for the following counties.

Barry	Jasper	Newton	Scott
Butler	McDonald	Oregon	Stoddard
Cape Girardeau	Mississippi	Ozark	Stone
Dunklin	New Madrid	Pemiscot	Taney
Howell		Ripley	

FMHCSS Uo Value Zone 2 is acceptable for all other counties.

MONTANA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

NEBRASKA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

NEVADA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

NEW JERSEY

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

NEW MEXICO

FMHCSS Uo Value Zone 2 or higher is acceptable for the following counties:

Bernalillo	Eddy	Lea	Quay
Chaves	Grant	Lincoln	Roosevelt
Curry	Guadalupe	Luna	Sierra
De Baca	Hidalgo	Otero	Socorro
Dona Ana			

FMHCSS Uo Value Zone 2 is acceptable for all other counties.

NEW YORK

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

NORTH CAROLINA

FMHCSS Uo Value Zone 2 or higher is acceptable for all counties in the State.

NORTH DAKOTA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

OHIO

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

OKLAHOMA

FMHCSS Uo Value Zone 2 is acceptable for the following counties

Beaver Cimarron Texas

FMHCSS Uo Value Zone 2 or higher is acceptable for all other counties.

OREGON

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

PENNSYLVANIA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

PUERTO RICO

FMHCSS Uo Value Zone 1 or higher is acceptable for all of Puerto Rico.

SOUTH CAROLINA

FMHCSS Uo Value Zone 1 or higher is acceptable for all counties in the State.

SOUTH DAKOTA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

TENNESSEE

FMHCSS Uo Value Zone 2 or higher is acceptable for all counties in the State.

TEXAS

FMHCSS Uo Value Zone 1 or higher is acceptable for all counties in the State.

UTAH

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

VERMONT / NEW HAMPSHIRE

FMHCSS Uo Value Zone 3 is acceptable for all counties in both States.

VIRGINIA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

WASHINGTON

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

WEST VIRGINIA

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

WISCONSIN

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

WYOMING

FMHCSS Uo Value Zone 3 is acceptable for all counties in the State.

ATTACHMENT 9-C
CONDOMINIUM QUESTIONNAIRE

Project Name and Address:		
Documents that are needed to complete this questionnaire are as follows: ☐ Recorded covenants, conditions and restrictions (CC&Rs)/Declaration/Master Deed; ☐ Articles of Incorporation (Articles of Association or Condominium Trust); ☐ Bylaws; ☐ Current year's budget, and current balance sheet (less than 90 days old); ☐ Prior fiscal year-end financial statement(s) ☐ Minutes of last two (2) Homeowner Associations meetings; ☐ Condominium association master insurance policy (flood, liability, hazard insurance, fidelity bond).		
Questions:	YES	NO
1. Does the condominium consist of 4 or more units?		
2. Have current and complete copies of the condominium project's legal documents been submitted for review?		
3. Has OGC determined that the condominium project complies with the requirements of the enabling statute and all applicable state and local laws?		
4. When required by state or local laws, has the "Condominium Resale Certificate" been provided to the buyer?		
5. Has OGC determined that the condominium project's legal documents preserve the rights and lien position of the Agency?		
6. Has control of the owners' association been turned over to the unit owners?		
7. Is the owners' association currently involved in any litigation?		
8. If the condominium project is on a leasehold, does the underlying lease provide a term that is equal to or greater than the life of the loan?		
9. Is the project professionally managed?		

Questions:	YES	NO
10. Does the project contain commercial or non-residential space?		
11. Did the owners' association provide a current copy of the financial statement (audited financial statement if the project contains 10 or more units)?		
12. Are the reserve funds clearly separate from the operating funds?		
13. Is the reserve account funded at a level that is sufficient to meet planned expenses and ongoing maintenance of the condominium project, without assessing additional fees to the unit owners? (Funding of replacement reserves for capital expenditures and deferred maintenance should be at least 10% of the budgeted income.)		
14. Are more than 15% of the unit owners more than 1 month delinquent in payment of homeowners' association dues or assessments?		
15. Are at least 70% of the units sold?		
16. Are the common elements of the project well maintained?		
17. Does the owners association have adequate insurance coverage for the project and common elements? (i.e. - hazard insurance must cover 100% of the replacement cost)		

Comments: (Responses in any of the shaded boxes require explanation if approval is recommended)

_____

_____

_____

Recommendation: The project has been reviewed and the unit (check one) ☐ is ☐ is not acceptable for Agency financing.

_____ _____

SIGNATURE OF REVIEWER TITLE DATE OF INSPECTION

_____ _____

SIGNATURE OF STATE DIRECTOR DATE OF INSPECTION

CHAPTER 10: LEVERAGED LOANS

SECTION 1: UNDERSTANDING LEVERAGED LOANS

10.1 OVERVIEW

A leveraged loan is an Agency loan that is supplemented by an affordable housing loan or grant from another funding source that is provided at the same time the Agency loan is closed. Only eligible leveraged loans will be considered in the payment subsidy calculation. For the purpose of payment subsidy only, an eligible leveraged loan is defined as an affordable housing loan that is characterized by long term (not less than 30 years), amortized payments with a note interest rate equal to or less than 3 percent. Detailed guidance for calculating payment subsidy is provided in Paragraph 6.12. This does not preclude other types of participating leveraging. Leveraging reduces the loan amount the Agency must provide to help an applicant obtain adequate housing. The additional funding source may be a private lender that provides home financing at market rates and terms, a State or local government, or a nonprofit organization that provides subsidized loans or grants. Leveraged loan payment, security, and processing requirements may vary from non-leveraged loans as provided in this chapter. This chapter provides basic information about leveraging and describes the modifications to regular loan processing procedures that are made when a loan is to be leveraged.

A. Advantages of Leveraged Loans

Leveraged loans offer advantages to both the Agency and applicants. By combining its resources with those of other lenders, the Agency can assist more borrowers. For this reason, loan packages that receive an affordable housing loan from an Agency recognized source will receive a processing priority when the supplemental funding reduces the amount otherwise needed from the Agency by at least 20 percent with loan funds or 15 percent if entirely grants, forgivable loans or deferred payment loans.

Who Can Be a Participating Lender?

"Lender," as it is used in this chapter, refers to an organization that provides long term, amortized loans for housing, including private lenders, State and local governments, and nonprofit organizations. The Agency encourages grant funding when it is available. However, a grant provider is not considered a "lender."

For some applicants, purchasing a home through a leveraged loan will be the first opportunity to establish a relationship with a private lender. For other applicants, combining the

Agency loan with a grant or low-interest loan from another subsidy program may be the only way to make homeownership possible. Leveraging is especially encouraged in the case of assumptions on new rates and terms, since the applicant may be able to obtain a non-Agency loan for purchase costs above the outstanding balance to be assumed.

B. Two Separate Financial Agreements

When a loan is leveraged, each lender enters into a separate financial agreement with the applicant. The combined resources that are provided enable the applicant to purchase a home. Although each lender remains responsible for final underwriting decisions for its loan, the application and underwriting processes should be streamlined whenever possible to avoid duplication of effort and extra burden on the applicant.

10.2 SOURCE OF LEVERAGED FUNDS

Agency funds may be supplemented by funds from a variety of sources. One of the challenges for the Loan Originator will be to understand the implications for the applicant and the Agency of the requirements that may be imposed by these sources.

A. Market Rate Financing

Market rate financing may be appropriate under some circumstances. The applicant's repayment ability must be considered in determining whether it is appropriate for referral to market rate sources. Market rate loans will not be considered in the payment assistance formula. Private lenders generally have a variety of loan products that are tailored to fit specific circumstances, for example, different products for new purchases, refinancing, and home improvement loans. The private lender loan must be a long-term, fixed rate mortgage of at least 30 years or a term no shorter than 15 years with a balloon payment and installment based on at least a 30-year amortization schedule. The Agency will not accept an adjusted rate mortgage (ARM) or an interest only mortgage. The Agency will not participate in loan packages that involve interest rates that are more than 2% (200 basis points) above the Agency note rate. Loan Originators may need to work with the lender and applicant to identify an appropriate loan product that meets lender and Agency requirements.

B. Other Subsidized Financing

Although there are many variations in the specifics, the subsidized funds that can supplement Agency funds will generally come in one of the forms described below.

- **Grants without long-term restrictions.** Some grants are provided with no restrictions, as long as the applicant is eligible and the funds will be used for an eligible purpose.

- **Forgivable loans.** Some sources provide funds that require repayment only if the home buyer fails to comply with program requirements or restrictions. For example, a funding source may provide funds for a down payment or rehabilitation that need not be repaid if the home buyer remains in the property for a specified period of time. The funds are generally provided as a loan to permit the funding agency to record the circumstances under which repayment is required.

- **Deferred payment loans.** Deferred payment loans may be used to provide funds that are repaid only upon transfer of the property or as a balloon payment at the end of a specified period. These funding arrangements often include a provision for the funding source to share any appreciation that occurs with the home buyer.

- **Affordable Housing Loans.** In many areas, low-interest loans are offered by State and local government agencies. These loans require repayment on a monthly basis and may include provisions for the funding source to share in any appreciation.

Grants, forgivable loans, deferred payment loans, and any other nonamortizing loans are not considered in calculating the monthly principal, interest, taxes, and insurance (PITI) or total debt (TD) ratios. The Agency's ability to recapture subsidy funds may be affected by the provisions of these loans. Agency loans should be subordinated only in the case of an amortizing loan of 20 to 30 percent of the total transaction. While an applicant may obtain a loan from another source of less than 20 percent of the total transaction, such a loan **would not** receive benefits such as lien priority, or processing priority. Further, USDA payment assistance is used to make the home affordable rather than to make the participating financing affordable.

10.3 KEY DIFFERENCES IN POLICIES AND PROCEDURES

This paragraph highlights major policy and procedural differences between qualifying leveraged loans and other participation loans. Detailed processing guidance for originating leveraged loans is provided in Section 2 of this chapter.

A. Eligible Loans and Grants

Cash contributions by the applicant, gifts from individuals, and donations of land do not count as leveraged or participation amounts. These are applicant contributions. Likewise, seller contributions or assistance from organizations that require seller participation or seller contributions do not count towards leveraged or participation amounts. Subsequent loans cannot be leveraged unless they are used in conjunction with assumptions on new rates and terms.

The Agency will not consider leveraging arrangements with market-rate financing sources in which the lender's loan amount is less than 20 percent or greater than 50 percent of the combined transaction amount. When all the leveraging consists of subsidized financing (affordable housing products, such as down payment assistance except funds that come directly or indirectly from seller contributions, forgivable loans, etc.), the minimum acceptable leveraging is 15 percent.

Other financing totaling less than 20 percent for lenders or 15 percent from other subsidized housing assistance is permissible. However, Rural Development will not subordinate its lien position to the lender if the loan is less than these required thresholds.

B. Lien Position

To encourage participation by other lenders, the Agency will subordinate its lien position to a leveraged lender providing at least 20 percent of the financing. However, liens related to other subsidized funds provided in the form of grants and nonamortizing loans, such as deferred payment or forgivable loan, must be subordinated to the Agency's loan. In those cases where there is a soft, silent or forgivable lien, the total debt may exceed the market value as prescribed in Paragraph 6.7 F.

C. Payment Subsidy Calculation

Regardless of the percentage of the loan that is financed by the leveraged lender, the monthly note installment of an eligible leveraged loan as described in paragraph 10.1, will be considered in the payment subsidy calculations. Detailed guidance for calculating payment subsidy is provided in Paragraph 6.12.

Will the leveraged loan payment be considered when calculating payment subsidy?

Only when the eligible leveraged loan is amortized for at least 30 years with an interest rate that does not exceed 3 percent.

Exhibit 6-2 provides a sample payment subsidy calculation.

D. Availability of Mortgage Credit Certificates (MCC)

Under current tax law some State and local issuers of mortgage bonds may issue a MCC to provide a Federal income tax credit to assist low-income home buyers and home owners. The credit permits an eligible household to claim a specific percentage of the annual interest paid on a mortgage as a tax credit rather than a deduction. If an applicant will receive the credit, the benefit of the credit will be "grossed up" according to income calculation guidance described in Paragraph 4.4 H. MCCs are typically issued by Housing Finance Agencies through private lenders. The maximum annual MCC tax credit is limited by the IRS Tax Code (currently $2,000).

E. Section 8 Housing Choice Vouchers (HCV)

Housing Choice Vouchers may be used with or without a leveraged loan. The voucher itself is not considered leveraging.

F. Origination

Many processing steps can be conducted by the participating lender, rather than Agency staff. For example, the Agency may accept application and income information provided by the lender and permit the participating lender to conduct appraisals and inspections when the lender has a stake in the transaction. However, even when the Agency relies on the work of the participating lender, it retains internal control, final underwriting, and loan approval responsibility for the Agency loan. Responsibility for compliance with environmental requirements remains with the Agency, although the lender may be asked to assist in collecting needed environmental information. The Agency is also responsible for compliance with the disclosure requirements under the Truth in Lending Act and Real Estate Settlement Procedures Act Integrated Mortgage Disclosures (TRID) regulation for the Agency loan. Section 2 of this chapter provides detailed processing guidance for originating leveraged loans.

G. Servicing

Leveraged loans are eligible for the same servicing actions as any other Section 502 loan. It is imperative that any leveraging arrangement be structured so that applicant rights are preserved. However, servicing strategies may be different because of the Agency's lien position and the need to coordinate servicing strategies with the participating lender.

1. Tax Service Fee (Tax and Insurance Escrow)

The Agency will collect a tax service fee on all leveraged loans. Either the participating lender with at least 20 percent of the total amortized loan amount or the Agency may maintain the escrow account. Lenders with less than 20 percent and all affordable housing product agencies **may not** maintain the escrow account. When necessary, the Agency may make advances to pay taxes or insurance premiums.

The Agency is customarily in a subordinate lien position with the largest portion of the loan amortized for the longer term and is at more risk than the other lender. An exception to this may be agreed to with the prior lien holder when the tax service vendor

agrees in writing to cover both the Agency's and the leveraged lender's loans. The vendor must also agree to make annual real estate tax searches and report any delinquencies to the National Financial and Accounting Operations Center in St. Louis, Missouri.

2. Special Servicing

The Agency will aggressively pursue all available special servicing remedies to help solve applicant problems. If foreclosure is necessary, each lender has an independent responsibility to protect its interest. Form RD 1927-8, Agreement with Prior Lienholder, which must be executed and recorded in the appropriate Real Estate Mortgage Records, requires the participating lender to notify the Agency before accelerating any loan and permits, but does not require, the Agency to pay or reinstate the prior lien to protect the Agency's interest.

10.4 DEVELOPING STATE-BY-STATE APPROACHES TO LEVERAGING

The way in which leveraging is most effectively handled will vary state-to-state and community-to-community, depending upon market conditions, the availability of Government subsidy funds, and the interest of private lenders. For this reason, each State Director should develop an independent leveraging strategy that will encourage and facilitate the use of leveraged loans.

Elements of an Effective Lending Strategy

- Lender Outreach and Marketing
- Effective Borrower Education
- Streamlined Processing Procedures

A. Lender Outreach

Each state should implement lender outreach activities that encourage participation by all prospective lenders. For example, Field Staff should:

- Collect and maintain sales information for each market area that will enable the Loan Originator to assess whether applicants are candidates for 100 percent private financing or for leveraging.

- Identify lenders who are active in the State and provide information about the Agency's loan programs and how leveraging arrangements might work.

- Identify the sources of loan and grant funds that may be available from State and local governments, and nonprofit sources. Provide information on the Agency's loan programs to active and appropriate sources, and describe how leveraging arrangements might work.

- Consider maintaining lists of interested lenders, and information on their loan rates and terms. Care should be taken to provide information to applicants in a manner that does not provide preferential treatment to specific lenders or borrowers.

B. Borrower Education

Each State should develop briefing materials that explain the leveraging concept and why leveraging funds may be advantageous. Some applicants may need guidance and assistance in identifying and contacting appropriate non-Agency funding sources.

C. Streamlined Processing Procedures

Lenders will be less interested in working with the Agency if the leveraging process greatly increases their processing time or their documentation requirements. However, streamlining procedures must be balanced with prudent lending and internal control practices. Each Field Office should develop streamlined procedures for coordinating with participating lenders and for reviewing underwriting determinations made by those lenders. Each State Director should consider the following approaches:

- Develop a separate application package specifically for applicants seeking leveraged loans.

- Inform participating lenders in advance of the Agency's requirements for the qualification of appraisers, inspectors, and closing agents and, if requested, provide advance approval of lender staff or contractors who routinely provide these services for lenders' loans.

- Provide staff training to ensure expedited review of leveraged loans.

- Develop and enter into a Memorandum of Understanding (MOU) with active lenders covering basic policies and procedures, rather than operating on a loan-by-loan basis. See Attachment 10-A for a list of topics shat should be considered in developing a Memorandum of Understanding.

- The terms of the MOU, including requirements for leveraged loans outlined in this chapter, should be negotiated up front. A good MOU eliminates future misunderstandings, is a good public relations opportunity, and is strongly recommended for all partners. A copy of the MOU in each leveraged loan file is suggested.

- Over time, use information from MortgageServ to generate information about the performance of leveraged loans to inform lenders, and to adjust processing procedures. To assure this information is accurate and useful, inconsistencies (such as First National Bank v. 1st Natl. Bank) should be avoided. The leveraged lender ID field in UniFi, including the lender's Tax ID number, must be completed.

SECTION 2: ORIGINATING LEVERAGED LOANS

10.5 TAKING APPLICATIONS

If the applicant applies directly to the Agency, the application procedures described in Chapter 3 should be followed. When the applicant has already completed an application to another funding source, a copy of that loan or grant application may be accepted if the other funding source used a version of the Uniform Residential Loan Application (pages 1-5 of Form RD 410-4). However, the applicant also must complete Additional Information Required for RHS Assistance, pages 6 through 9 of Form RD 410-4, Uniform Residential Loan Application.

10.6 REFERRING APPLICANTS TO PARTICIPATING LENDERS

Because both loan and grant funds may leverage Agency financing, any applicant for an Agency loan is a potential candidate for leveraging. The Loan Originator should provide information about other sources of subsidized loans or grants to applicants. Applicants should be referred to entities offering affordable housing products such as grants, forgivable loans, deferred interest loans, and below-market interest rate loans when such funding sources are available in the local area for which they appear to qualify.

The applicant may be a candidate for a leveraged loan because they are working with or have already completed an application to another funding source prior to coming to the Agency for a loan.

10.7 DETERMINING APPLICANT ELIGIBILITY

> **Community Reinvestment Act (CRA)**
>
> CRA requires lenders to help meet the credit needs of the communities in which they are chartered to do business.

Applicants for Section 502 leveraged loans must meet the eligibility requirements described in Chapter 4. In addition, they may have to meet additional eligibility requirements imposed by participating lenders. Participating lender credit requirements may be more stringent than the Agency's, but the Loan Originator can encourage lenders to work with applicants who meet Agency requirements. In talking with the participating lender, the Loan Originator should stress that the Agency will be sharing risk with the participating lender and that the participating lender will hold the first lien position. Also, the lender may receive CRA credit for making loans in partnership with the Agency. Leveraged loans may be sold on the secondary market though the lender must notify Rural Development upon sale and assure the investor/buyer is aware of leveraging arrangements and all requirements.

10.8 ISSUING THE CERTIFICATE OF ELIGIBILITY

To issue Form RD 1944-59, Certificate of Eligibility in conjunction with a leveraged loan, the Loan Originator should follow the procedures described in Paragraph 4.25, with the following exceptions. For leveraged loans, Form RD 1944-59 will contain:

- The total maximum loan for which the applicant qualifies -- not just the Agency's portion of that loan;
- The expected Agency and lender shares of funds to be provided; and
- A time frame of 60 days for the applicant to identify a property -- 15 days longer than other applicants receive to allow time to work with the participating lender.

10.9 UNDERWRITING LEVERAGED LOANS

A. Lender vs. Agency Underwriting

> The Agency is responsible for making sound underwriting decisions regardless of another lender's participation.

There are many underwriting processes that may be performed by either the Agency or the lender, such as income verification and title clearance. Lenders should be allowed to do the primary legwork involved in collecting underwriting information, but only when all or a portion of their loan is at risk. Allowing lenders to collect underwriting

information does not imply that the Agency is relieved of its responsibility to make sound underwriting decisions, only that information collected by the lender is generally acceptable to use in making these decisions.

B. Property Requirements and Appraisal

The property must meet all of the requirements described in Chapter 5. The Loan Originator may accept property inspections and appraisals conducted by the participating lender, as long as evidence of the qualifications of the individuals performing these activities is provided and accepted. The Loan Originator must still inspect the property to determine eligibility. An administrative review of the appraisal must be completed before the appraisal is accepted. The environmental review remains the responsibility of the Agency; however, the participating lender may be requested to provide environmental information.

C. Loan-to-Value Ratio

When loans are funded solely by the Agency, the applicant's total debt may exceed the market value of the property by the total of the Agency appraisal and tax monitoring fees, the required contribution to establish the escrow account, plus the fee for homeownership education. Down payments are required only if the applicant's non-retirement assets exceed $15,000 ($20,000 for elderly households). (See Paragraph 4.6.)

Some lenders may be willing to participate in a loan when the total debt exceeds the value of the property because their risk is limited by the Agency's participation in the loan. However, others will require that applicants have some equity in the property, because they believe an investment in the property improves the likelihood that the applicants will fulfill their commitments. This means that applicants with leveraged loans may need to contribute more cash than other applicants. The Loan Originator should explain to the applicant whether a cash contribution will be necessary and work with the lender to lower their usual equity requirements.

D. Loan Terms and Fees

Lenders are expected to charge reasonable and customary interest rates and fees. The Loan Originator may be able to help the applicant negotiate favorable terms.

The leverage loan interest rate must be the rate the lender typically charges to its best mortgage applicant customers – an extra amount may not be charged because of low income or other high risk factors. The interest rate may be no more than 2 percent (200 basis points) above

the Agency note rate in effect at loan closing. Also, the lender may not include "points" to buy down or pre-pay the interest. If funds are available from the applicant, they must be used to reduce the amount borrowed (reducing the cost to the government).

Non-Agency loans must be amortized over a 30-year period, but may contain provisions for a balloon payment at the end of the 15th year.

Loan fees must be kept as low as possible. All fees must be reasonable. "Underwriting fees" and similar add-ons are not permitted. The total fees paid to the lender may not exceed 3-1/2 percent of the lender's loan. (This limitation on the lender applies regardless of whether the buyer or the seller pays the fees.) However, an additional amount may be considered when the lender does most or all of the loan processing (including the Rural Development loan) and the additional amount is for reimbursements, such as fees for appraisals, inspections, etc.

In general, the loan originator must assure loan fees are minimized. The 3-1/2 percent is a maximum, not a baseline. The total Rural Development loan may not be considered when the lender is establishing fees. Lender fees must be commensurate with the amount of service provided by the lender.

E. Determining Loan Amount

The Agency loan may include costs for the initial contribution to the escrow account for taxes and insurance, even if the participating lender will manage the escrow account. The loan amount for leveraged loans is determined using the procedures described in Chapter 7, with the following exceptions.

- The note installment of an eligible leveraged loan (loan amortized for at least 30 years and an interest rate that does not exceed 3%) will be considered in the payment subsidy calculation.

- Agency loans leveraged with private financing should always be at the standard terms. If the loan is not affordable at standard rates and terms, the Agency's share of the loan should be increased, rather than extending the loan term. Loans requiring 38-year repayment terms should never be leverage with market rate financing.

- Use the Agency's cost for an appraisal to determine total allowable debt, even when the appraisal is performed by the participating lender's appraiser.

- Packages involving affordable housing products or grants that primarily pay loan packaging fees or costs other than an eligible loan purpose, as defined in Chapter 6, do not count toward the 15/20 percent limitations for the loan to automatically receive leveraged loan benefits.

F. Agreements with the Participating Lender Regarding Construction

For loans that involve new construction or rehabilitation, the Agency and lender must agree on how construction inspections, payment draws, and final acceptance of the work will be handled. This may be accomplished by an agreement developed for the specific loan or through a general memorandum of understanding that covers multiple loans.

1. Inspections

Construction inspections completed by the participating lender may be accepted if the Field Office has approved the qualifications of the inspector. The participating lender may be asked to provide the Agency with a status report on implementation of any mitigation measures required by the Agency's environmental assessment; however, the ultimate responsibility for compliance rests with the Agency.

2. Construction Draws

Typically, construction draws should be made by each lender in proportion to the amount of the loan each is contributing. For example, if the Agency provides 60 percent of the loan and the participating lender 40 percent, 60 and 40 percent of each draw would be paid by the Agency and the participating lender, respectively. However, there are circumstances in which another arrangement would be appropriate. For example, a participating lender might prefer to fully fund the acquisition of the site at the beginning of the construction period. If the participating lender is unwilling to provide construction funding until the Agency loan funds have been used, the Agency can provide the construction funding up to the maximum amount of the Agency's loan.

10.10 LOAN CLOSING

The Agency's Loan Approval Official must review the leveraged loan package and the lender's Loan Estimate to determine if fees are reasonable and proposed use of loan funds is permissible. The Loan Approval Official will not approve a transaction where the fees are questionable or excessive.

A joint closing generally will be held for Agency and participating lender loans. If the leveraged loan will close after the Agency loan is closed, a written, firm loan commitment from the participating lender must be provided to the Agency by the time of the Agency's loan closing. Closing procedures for the Agency's loan are identical to those described in Chapter 8. When the Agency's lien will be subordinated, the prior lien holder must execute Form RD 1927-8, Agreement with Prior Lienholder.

Field offices should work closely with leveraged lenders to minimize loan closing costs. It may be possible to use one title insurance policy to cover both the participating lender and Rural Development. The State Director should check with the Regional Attorney to assure this is an acceptable practice and obtain any special instructions to assure the government's interests are protected.

Leveraged loan packages that include any type of broker referral fee are not acceptable. Some mortgage lenders pay these fees for loans closed at a higher than prevailing interest rate. These fees, along with the cost of credit, must be disclosed in accordance with the TRID regulation. They may be found in the "Origination Charges" section on the Loan Estimate and Closing Disclosure, as yield spread premiums, yield differentials, rate participation fees, par-plus pricing, or similar terms.

Mortgage insurance is **not** acceptable. This includes Private Mortgage Insurance (PMI), Mortgage Insurance Premium (MIP), and similar products.

Some lenders offer additional insurance products at loan closing, including mortgage payment insurance. Generally, the Agency will not approve a loan with such supplemental coverage unless the customer makes a written request for such coverage.

A. Required Documentation

In addition to the documentation required to support the Agency's loan, a copy of the mortgage, promissory note, evidence of title and hazard insurance, and closing documents for the non-Agency loan or grant must be provided for the borrower's case file.

Ideally, there should be only one Closing Disclosure. It should include all details of the transaction including Agency and leveraged financing. If the leveraged lender requires a separate Closing Disclosure, a copy must be provided to Rural Development. The Loan Approval Official will review the Closing Disclosure to assure leveraged customers are charged fees as agreed prior to closing. The review will include fees that are not part of the leveraged loan amount and/or those paid by the seller.

B. Recording the Lien/Legal Documents

The closing agent should be informed of the lien position the Agency will take.

In addition to recording the real estate mortgage or deed of trust, the closing agent will record the executed Form RD 1927-8. Among other features, this agreement requires the lender to notify Rural Development prior to declaring the security instrument to be in default and accelerating the loan.

ATTACHMENT 10-A

SAMPLE TOPICS TO BE ADDRESSED IN A MEMORANDUM OF UNDERSTANDING

In general, the lender will recognize Rural Development requirements for leveraged loans, particularly in providing required notices. A good Memorandum of Understanding (MOU) avoids future problems and strengthens partnerships.

ORIGINATION

- Agency will subordinate to permit lender to obtain first lien position when at least 20 percent of the total financing is provided.
- Lender must use standard application form and obtain Agency approval of qualifications for the appraiser, inspector, and closing agent.
- Agency will be responsible for the appropriate level of environmental review; however, the lender may be asked to assist in the collection of needed environmental data.
- The lender rates and terms will be the same as those offered to best customers obtaining similar mortgage financing.
- Agency makes independent underwriting decisions based upon reviewing the participating lender's origination package.
- A joint closing will be conducted and a single Closing Disclosure provided. Closing costs will be controlled.
- For construction loans:
  - ◊ Describe how the lender will participate during the construction process (e.g., will the lender provide construction financing, will the lender defer amortization until the borrower occupies the dwelling, etc.);
  - ◊ Describe how draws will be paid (a pro rata share from each lender is preferred);
  - ◊ Describe how inspections will be completed (e.g., if the lender completes inspections, the Agency must receive a copy of the inspection and have the borrower's acceptance before making draw payments); and
  - ◊ Describe what will happen if the Agency loan will close before the participating loan. For example, the lender must provide a firm commitment at the time of Agency loan closing, contingent only upon successful completion of the construction.

SERVICING

- Describe who will establish and maintain the escrow account. If the lender maintains the account, the lender must report annually to the Agency on the state of tax and insurance payments.

- Describe what information will be shared between lenders (e.g., results of periodic inspections, delinquency or default information). Note: Information provided by the applicant cannot be released to another party without the applicant's permission.
- Describe how each lender will:
  - ◊ Pursue joint special servicing actions if a problem arises;
  - ◊ Notify the lender in the case the loan is declared in default or accelerated;
  - ◊ Provide a reasonable period for the other lender to cure the default (i.e., through a new loan or advance) with the borrower; and
  - ◊ Pursue a joint foreclosure action if the borrower is in default on both accounts.
- Describe graduation review and the role of lender, customer, and Rural Development.
- Describe reporting requirements, if any.
- A copy of the MOU should be filed in each affected individual casefile.

CHAPTER 11: NONPROGRAM LOANS [7 CFR 3550.74]

11.1 INTRODUCTION

A nonprogram loan is an extension of credit to a borrower who does not qualify for program credit, or an extension of credit to allow a buyer to purchase a property that does not qualify as a program property. The Agency will make nonprogram loans to:

- Allow the assumption of an existing program loan on new rates and terms; or
- Expedite the sale of a Real Estate Owned (REO) property.

Unless otherwise specified in this chapter, nonprogram loan applications should be accepted, evaluated, and closed following the procedures described for Section 502 loans in Chapters 2 through 10. For a summary of the differences between program and nonprogram loans, see Attachment 11-A.

A. Nonprogram Assumptions

When an existing Agency borrower wishes to sell a security property, the Agency will assist that borrower by allowing any creditworthy buyer to assume the outstanding Section 502 debt, even if the purchaser is not eligible for a program loan or the property does not qualify as a program property. This helps the borrower sell the property and reduce the chances that the borrower will default without requiring the Agency to obligate new funds. The amount assumed is reamortized over a full new loan period.

Same Rate and Terms Assumptions

In certain cases, generally those involving transfers of title between family members, a loan may be assumed under the same rates and terms by someone who is not program-eligible. However, such a loan is not considered a nonprogram loan.

B. Nonprogram Loans to Purchase REO Property

When the Agency has REO property to dispose of and funding is available, credit may be extended on nonprogram terms in order to facilitate the sale of the property. Field Staff should consult with the State Office to ensure that funds for nonprogram REO sales are available before offering credit. Nonprogram credit may only be offered after the expiration of any restriction period on program properties. Chapter 16 provides additional guidance on REO sales.

11.2 PRE-QUALIFICATION

The pre-qualification step is substantially the same as for program loans, as described in Section 1 of Chapter 3. When a potential applicant expresses interest in nonprogram credit, the Loan Originator explains the Agency's nonprogram requirements and uses UniFi to determine whether the potential applicant has adequate repayment ability. Although the potential applicant may submit an application regardless of the outcome of the pre-qualification, this step can save the applicant and Agency staff time in the long run by letting potential applicants know in advance about any reasons they may not be eligible for a nonprogram loan.

11.3 APPLICATION PROCESSING

This step is substantially similar to the process for a program loan described in Section 2 of Chapter 3. The nonprogram applicant must submit Form RD 410-4, Uniform Residential Loan Application. The Loan Originator then determines whether the application is complete, asks follow up questions needed to understand the applicant's situation, and conducts a preliminary credit check, as described in Paragraph 4.11. The Loan Originator then makes a preliminary eligibility determination and notifies the applicant.

Unlike applicants for program loans, applicants for nonprogram credit must submit a nonrefundable $100 application fee. However, this fee cannot be collected prior to issuing the Loan Estimate to nonprogram applicants, in accordance with Paragraph 3.7. The application fee is waived for applicants who are public bodies or nonprofit organizations.

11.4 ELIGIBILITY

Nonprogram applicants are not subject to the income eligibility, asset, citizenship, or occupancy requirements described in Chapter 4 for program borrowers. They may own other properties and are not required to first seek private sources of financing. However, they must comply with other requirements found in Section 4 of Chapter 4 relating to legal capacity, truthful applications, and suspension or debarment, and must meet the credit requirements outlined in Section 3 of Chapter 4.

11.5 PROPERTY REQUIREMENTS

Properties financed with nonprogram loans are not required to meet the site and dwelling requirements described in Sections 1 and 2 of Chapter 5, but are required to meet the environmental requirements described in Section 3 of Chapter 5. Chapter 16 describes disclosure and documentation requirements for REO properties being disposed of that are not decent, safe, and sanitary or that may contain hazards.

11.6 UNDERWRITING THE LOAN

A. Down Payment Requirement

Nonprofit organizations and State and local governments are not required to contribute a down payment. Other nonprogram applicants are required to make a down payment. Nonprogram borrowers who intend to occupy the property must contribute 2 percent of the purchase price. Nonprogram borrowers who do not intend to occupy the property must contribute 5 percent of the purchase price.

B. Amount to be Financed

For assumptions, Agency credit is limited to the lesser of the sales price or the amount of the existing borrower's outstanding debt, less the purchaser's down payment. If the purchaser requires additional funds to purchase the property, the funds must come from another source.

For REO sales, Agency credit is limited to the sales price, less the purchaser's down payment. Closing costs and fees, tax service fees, and any required initial deposit to the escrow account cannot be financed.

C. Interest Rate

The interest rate charged for nonprogram loans is the nonprogram rate in effect at the time of loan approval. Nonprogram rates can be found in Exhibit B of RD Instruction 440.1.

D. Loan Repayment Period

The repayment period for nonprogram loans depends on whether the applicant intends to personally occupy the property.

For nonprogram applicants who intend to personally occupy the property, the maximum loan term is 30 years. If an applicant already has a nonprogram loan, a new 30-year loan is not permitted, even if the applicant intends to occupy the new property.

For nonprogram applicants who do not intend to personally occupy the property, the maximum loan term is 10 years. If more favorable terms are necessary to facilitate the sale, the loan may be amortized over a period of up to 20 years, with payment in full due not later than 10 years from the date of closing.

E. Repayment Ability

Chapter 6 provides detailed guidance on the use of the principal, interest, taxes, and insurance (PITI) and total debt (TD) ratios. For nonprogram applicants the ratios permitted depend upon whether the applicant intends to personally occupy the property. For nonprogram applicants who intend to personally occupy the property, the PITI ratio must not exceed 33 percent of repayment income, and the TD ratio must not exceed 41 percent. For nonprogram applicants who do not intend to occupy the property, the TD ratio must not exceed 41 percent. No analysis of the PITI ratio is required.

11.7 LOAN APPROVAL AND CLOSING

As with program loans, once the Loan Originator has completed the underwriting analysis, loans recommended for approval are forwarded to the Loan Approval Official. When the loan is approved, the applicant selects a closing agent who conducts title clearance, reviews security requirements to verify that they conform to the Agency's standards, and works with the Loan Originator to ensure that all required closing documents are prepared for signature at closing.

Because the same closing forms are used for both program and nonprogram borrowers, the Loan Originator must modify the security instruments, promissory note, and, if applicable, the assumption agreement to delete:

- Any conditions related to financing or refinancing with other credit, restrictions on leasing, and consent to junior lien encumbrances; and

- Any references to borrower eligibility for payment subsidies and special servicing actions.

Chapter 8 provides detailed instructions for closing both program and nonprogram loans.

11.8 SERVICING NONPROGRAM LOANS

After closing, the Loan Originator activates the loan in MortgageServ and prepares a loan docket to send to the National Financial and Accounting Operations Center for servicing, as described in Chapter 8. Nonprogram borrowers are not subject to periodic reviews of their ability to refinance with private credit and are not eligible for payment subsidies, moratoriums, or subsequent loans.

ATTACHMENT 11-A

SUMMARY OF DIFFERENCES BETWEEN PROGRAM LOANS AND NONPROGRAM LOANS

Topic	Section 502 Program Loan	Nonprogram Loan
Income	Borrower must not be above low-income at loan approval and must not be above moderate-income at loan closing.	No income eligibility restrictions.
Application	No application fee.	$100 application fee except from public bodies or nonprofit organizations.
Interest Rate	Promissory note rate is the lower of the program rate in effect at loan approval and loan closing. Program interest rate is used.	Promissory note rate is the nonprogram rate in effect at loan approval. Nonprogram interest rate is used.
Payment Subsidy	Borrower may be eligible for payment subsidies.	No payment subsidy available.
Loan Term	Standard term is 33 years; some may qualify for a 38 year term.	Maximum term for an occupant is 30 years; maximum term for a nonoccupant is 10 years.
Down Payment	Borrowers required to contribute non-retirement assets greater than $15,000 ($20,000 for elderly households).	Purchasers who will be occupants are required to contribute 2 percent of the purchase price as a down payment. Purchasers who will be nonoccupants must contribute 5 percent.
Repayment Ability	Very low-income borrowers must not exceed a 29 percent principal, interests, taxes, and insurance (PITI) ratio, and 41 percent total debt (TD) ratio. Low-income borrowers must not exceed a 33 percent PITI ratio, and 41 percent TD ratio.	Borrowers who will personally occupy the property must not exceed a 33 percent PITI ratio and 41 percent TD ratio. Borrowers who will not personally occupy the property must not exceed a 41 percent TD ratio.

Topic	Section 502 Program Loan	Nonprogram Loan
Closing Costs	Closing costs may be financed with Agency funds to the extent that the total debt does not exceed the property's market value and the area loan limits.	Closing costs cannot be financed with Agency funds.
Escrow and Other Fees	Initial escrow deposit, tax service fee, homeownership education fee, and appraisal fee may be financed with Agency funds, even if these amounts cause the loan to exceed the market value of the property or the area loan limit.	These fees and initial escrow deposit cannot be financed with Agency funds.
Eligibility for Servicing Actions	Borrowers are eligible for a variety of servicing actions, including payment subsidies.	Payment moratoriums, payment subsidies, and subsequent loans are not permitted. If both the borrower and property are eligible, the loan may be refinanced with Agency credit to permit payment assistance.
Refinancing with Private Credit	Borrower must refinance with private credit when able to do so.	No requirement for refinancing with private credit.
Leasing Restrictions	Borrower cannot lease property for more than 3 years and cannot offer the renter an option to purchase.	Borrower may lease property for any period of time, and with purchase options.

CHAPTER 12: SECTION 504 LOANS AND GRANTS

12.1 INTRODUCTION

> Only those procedures that differ from Section 502 loans are described in this chapter.

The objective of the Section 504 loan/grant program is to help very low-income owner occupants of modest single family homes in rural areas repair their homes. Loan funds are available for repairs to improve or modernize a home, make it safer or more sanitary, or remove health and safety hazards. For homeowners 62 and over who cannot repay a loan, grant funds are available to remove health or safety hazards, or remodel dwellings to make them accessible to a household member with a disability. Attachment 12-A provides a summary of the differences between Section 504 loans and Section 504 grants, Attachment 12-B provides the differences between Section 502 and Section 504 loans, Attachment 12-C provides a processing and closing checklist, Attachment 12-D provides a checklist for assessment of an existing dwelling, and Attachment 12-E provides items included with a complete application.

Unless otherwise specified in this chapter, Section 504 loan/grant applications should be accepted, evaluated, and closed following the same procedures described for Section 502 loans in Chapters 2 through 10. However, Section 504 loans **cannot** be assumed except on Same Rates and Terms as in Paragraph 2.4 B. In addition, a property survey is not required for a Section 504 loan or grant unless a mortgage or deed of trust is being filed and there is a compelling reason to question the placement of the dwelling on the property; or, in farm acreage cases, where the house site is subdivided from a larger parcel. The cost of a survey can be included in the loan if there is sufficient equity.

12.2 ELIGIBLE PURPOSES FOR 504 FUNDS [7 CFR3550.102]

> **Hazards and Major Hazards**
>
> A **hazard** is a property condition that jeopardizes the health or safety of the occupants or members of the community, but that does not make it unfit for habitation. A **major hazard** is a condition so severe that it makes the property unfit for habitation.

Section 504 loan funds may be used to make general repairs to improve or modernize the property, as long as the dwelling remains modest. Loan Originators may approve any of the eligible costs listed in Paragraph 6.4, unless specifically prohibited in this chapter. Section 504 grant funds may be used only for repairs and improvements that will remove health and safety hazards, or to repair or remodel dwellings to make them accessible and useable for a household member with a disability.

A. Restrictions on the Use of 504 Funds

Section 504 loan or grant funds cannot be used to:

- Assist in the construction of a new dwelling;
- Make repairs to a dwelling in such poor condition that when the repairs are completed, the dwelling will continue to have major hazards;
- Move a mobile home or manufactured home from one site to another;
- Pay for any off-site improvements except for necessary installation and assessment costs for utilities;
- Refinance any debt or obligation that the applicant incurred before the date of application (except for payment of the installation and assessment costs of utilities);
- Pay packaging fees to for-profit entities;
- Provide site preparation (e.g., grading, foundation plantings, seeding or sodding, trees, walks, yard fences, or driveways to a building site);
- Construct new decks (existing decks may be repaired if a safety hazard exists);
- Install concrete or asphalt driveways, although improvements to make the dwelling accessible and useable for a household member with a disability is an eligible purpose; or
- Landscape.

B. Repairs to Mobile or Manufactured Homes

Section 504 loan and grant funds can be used to repair mobile or manufactured homes if:

- The applicant owns the home and the site and occupied the home prior to filing an application;
- The repairs are needed to remove health or safety hazards; and

- The home is on a permanent foundation, or will be put on a permanent foundation with Section 504 funds.

Permanent Foundation

A permanent foundation is either: (1) a full below-grade foundation; or (2) blocks, piers, or some other type foundation with skirting, and anchoring with tie-downs.

12.3 APPLICATIONS [7 CFR 3550.104]

Applicants interested in the 504 Program will be provided Form RD 410-4, Uniform Residential Loan Application, Form RD 3550-1, Request for Information, Form RD 3550-4, Employment and Asset Certification, and Attachment 12-E checklist. Applications received must be date stamped on page 8 of Form RD 410-4 upon receipt.

Applications must be reviewed within three business days of receipt to confirm the application is complete. The Loan Originator will send Handbook Letter 11 (3550), Request Information, to the applicant requesting any missing items and stating that their application will be withdrawn if the missing information is not received within 15 days (30 days may be allotted if the applicant is waiting for repair bid(s)). A complete Section 504 application includes applicable items listed on Attachment 12-E checklist.

The Loan Approval Official will make a determination of eligibility within 30 days of receiving a complete loan application. When funding is available, a pre-construction conference should be scheduled within 30 days of an eligibility determination and loan/grant approval. Attachment 12-F is utilized to document the pre-construction conference. If funding is not available send Handbook Letter 3 (3550), Waiting Period, to the applicant. The waiting period can be estimated using an average of the previous two year allocations.

Section 504 applications requesting assistance to remove health or safety hazards should receive priority processing. Veteran's preference described in Paragraph 3.13 C. should be used in cases where multiple applications with the same priority preference are received on the same day. Complete applications will be processed in the order received using the following priority method:

First Priority: Health and safety hazards such as unsafe water, failed septic system, lack of heat, and those affected by natural disasters who are ineligible for other federal assistance. **Second Priority**: Removal of other health and safety hazards. **Third Priority**: Subsequent applications to an existing borrower. **Fourth Priority**: All other requests that do not meet the above criteria.

A property evaluation may be conducted utilizing online resources and photos to view the property and real estate tax assessments to determine the condition and value of the property. If the condition of the property cannot be determined using online resources, an on-site visit is documented with Attachment 12-D, Checklist for Evaluation of Existing Dwelling.

By submitting applications for a grant, applicants certify that they will not engage in the unlawful manufacture, distribution, dispensing, possession, or use of a controlled substance in conducting any activity with the grant

12.4 APPLICANT ELIGIBILITY [7 CFR 3550.103]

A. Income

In order to be eligible for a Section 504 loan or grant, the adjusted income at the time of loan/grant approval and at loan closing must not exceed the applicable very low-income limit. Low-income applicants cannot receive assistance under Section 504.

Medical deductions in excess of 3% of annual income should be closely examined and applied to elderly applications, as described in HB 1-3550, Paragraph 4.4 (g). Consider the following unreimbursed medical expenses; Medicare premiums, supplemental insurance, long-term care insurance, prescription drug coverage, pharmacy expenses, co-payments, eyewear, hearing aid / batteries, exams, dental expenses, including the greater of the actual travel costs for medical appointments or the published Internal Revenue Service mileage rate. You may not deduct funeral or burial expenses, nonprescription medicines, toothpaste, toiletries, cosmetics, a trip or program for the general improvement of your health, or most cosmetic surgery. Additional guidance on eligible medical expenses can be located on the Internal Revenue Service website.

B. Credit Requirements

Applicants receiving grant only funding do not need a credit history evaluation. An applicant with an outstanding judgment obtained by the United States in a Federal court, other than in the United States Tax Court, is not eligible for a Section 504 grant or 504 loan.

For loans, applicants must have a credit history that indicates a reasonable ability and willingness to meet debt obligations. Applicants with a credit score of 620 or higher, do not require Form RD 1944-61, Credit History Worksheet or further evaluation. These applicants are considered to have acceptable credit histories, with the exception for loan applicant(s) with a significant delinquency described in Paragraph 4.12 (a), or delinquency of a federal debt. For unsecured loans an infile credit score is considered reliable and there is no minimum trade line requirement. An applicant with a credit score less than 620 must demonstrate a history of reliable traditional or non-traditional credit using Form RD 1944-61, Credit History Worksheet to conduct the credit analysis.

The indicators of unacceptable credit described in Exhibit 4-4 for Section 502 loans can be used to evaluate the applicant's credit history, however, general credit requirements may be less stringent than those for section 502 loans. Late payments for housing costs should not be considered as an indicator of unacceptable credit.

The Loan Originator will check Department of Treasury's Do Not Pay (DNP) portal, as described in Paragraph 4.11 for loan and grant requests. Infile credit reports will be required for applicant(s) receiving a 504 loan assistance. A Tri-Merge Credit Report (TMCR) is required for all applications for loans of $7,500 or greater, but the cost of the report is not charged to the applicant.

C. Asset Requirements

Asset requirements are identical to those imposed by Section 502, except that only assets that can be converted to cash in 90 days or less are included in the calculation of non-retirement assets. Non-retirement assets in excess of $15,000 (or $20,000 for an elderly household) must be used to reduce the Section 504 request.

D. Repayment Ability

To qualify for a Section 504 loan, the applicant must have a reliable income source sufficient to allow repayment of the loan as supported by a budget. Effective October 1, 2017, a budget is defined by using a maximum Total Debt (TD) ratio of 46%. For applicants 62 years of age or older, the budget is determined by income-based eligibility and/or repayment ability. as demonstrated in Exhibit 12-1 "Eligibility". Non-taxable income **cannot** be "grossed up" by any percentage for the Section 504 Program.

E. Age and Income for Section 504 Grants

1. At least one applicant must be 62 or older for a household to qualify for a grant. There is no minimum grant award requirement. Grant eligibility is contingent upon meeting one of the following: 1) Income-Based Grant Assistance, 2. Lack of repayment ability, and ***3)*** If the applicant has ***exhausted all 504-loan potential.***

    a) A qualified applicant with an adjusted household income not exceeding 30% of the area median income (AMI) limit will be considered income-based eligible for grant assistance up to the maximum allowable grant limit. An income-based grant recipient can also receive loan assistance provided they demonstrate adequate repayment ability. Banded income limits (1-4 person, and 5-8 person limits) are not used for grant determinations.

b) Lack of repayment ability refers to qualified applicant(s) whose TD ratio exceeds 46%; therefore not able to repay a loan. Applicant(s) could qualify up to the maximum grant assistance for eligible grant purposes. The calculation of total debt is based on all applicants and/or parties to the note.

c) An applicant who has received maximum 504 loan assistance and has exhausted their loan options may qualify for up to the maximum grant assistance for eligible grant purposes.

2. A qualified applicant who meets the age restriction but does not qualify for income-based assistance (adjusted household income greater than 30% of AMI) will be evaluated to determine their repayment ability (TD ratio not exceeding 46%). If the applicant demonstrates repayment ability a 50/50 combination loan and grant will be calculated up to 46% TD ratio. To determine program type eligibility, the Loan Originator must use the following criteria:

1. Is the applicant or co-applicant 62 years of age or older?
   a. Yes, proceed to step two.
   b. No, determine the loan amount according to a TD ratio not to exceed 46%.

2. Does the adjusted household income exceed 30% AMI?
   a. No, if adjusted income does not exceed 30% AMI, the applicant(s) automatically qualify for income-based grant assistance.
   b. Yes, if the adjusted household income exceeds 30% AMI, proceed to step three.

3. Determine the applicant(s) existing TD ratio:
   a. TD ratio exceeds 46%, the applicant(s) qualifies for grant only assistance.
   b. TD ratio does not exceed 46%, the applicant(s) will qualify for a combination loan /grant, proceed to step four.

4. Determine combination loan /grant amount taking the following into consideration:
   a. The minimum initial loan amount is $1,000.
   b. Combination loan / grant will have equal loan and grant amounts with a TD ratio not to exceed 46%.*
   c. The maximum grant may not exceed the lifetime $7,500 limit.

*Certain circumstances will result in unequal combination loan / grant amounts (e.g. applicants requesting less than $2,000 or greater than $15,000).

Exhibit 12-1
Program Type Eligibility

Adjusted Household Income	Age	TD Ratio	Eligible Amount
Up to 30% AMI	62 or	n/a	Grant up to $7,500 Limit
Greater than 30% AMI	62 or	Exceeds 46%	Grant up to $7,500 Limit
Greater than 30% AMI	62 or older	< 46%	Loan/Grant Combination for equal amounts (minimum $1,000 loan; maximum $7,500 grant)
Any very-low income AMI	Any	Less than 46%	Maximum $20,000 Loan

Example 1 - Maddie is 82 years old with an adjusted household income equal to 38% of AMI and a TD ratio of 41%. She requested $7,500 in repair assistance for eligible loan or grant purposes. Her income exceeds 30% AMI and shows adequate repayment for Loan/Grant Combination. She is eligible for a 50% Loan/Grant Combination, $3,750 loan and $3,750 grant.

Example 2 - Rowdy is 72 years old with an adjusted household income equal to 49% of AMI and a TD ratio of 39%. He is applying for $1,500 in repair assistance for eligible loan or grant purposes. His income exceeds 30% AMI and shows adequate repayment for a Loan/Grant Combination. He is eligible for 50% Loan/Grant Combination; however, he must meet the $1,000 minimum loan requirement for initial loans. Rowdy is eligible for a $1,000 loan and $500 grant.

Example 3 - Mary is 62 years old with an adjusted household income equal to 31% of AMI and a TD ratio of 25%. She is applying for $22,000 in repair assistance for eligible loan or grant purposes. Her income exceeds 30% AMI and shows adequate repayment for a 50% Loan/Grant Combination. She is eligible for a $14,500 loan and $7,500 grant.

F. Ownership of Property [7 CFR 3550.107]

The applicant must own and occupy the property to be eligible for Section 504 funds, and must be able to document ownership, as described in Paragraph 5.11, with 3 exceptions.

First, the time restrictions for leasehold interests are different. In general, Section 502 loans must have a leasehold interest with an unexpired term that is at least 150 percent of the term of the mortgage. For Section 504 loans, the property must be covered by a lease with an unexpired portion of not less than 2 years beyond the term of the promissory note, and for grants, the remaining lease period must be at least 5 years.

Second, a land purchase contract is acceptable if the applicant is current on all payments and has the ability to remain current.

Third, if standard evidence of ownership, as described in Paragraph 5.11, is not available, Section 504 loan/grant applicants may demonstrate ownership by presenting any of the following:

- Records of the local taxing authority that show the applicant as owner and that demonstrate that real estate taxes for the property are paid by the applicant;
- Affidavits by others in the community stating that the applicant has occupied the property as the apparent owner for a period of at least 10 years, and is generally believed to be the owner; or
- Any instrument, whether or not recorded, that is commonly considered evidence of ownership, such as a deed or mortgage.

12.5 PROPERTY ELIGIBILITY

A. Property Requirements [7 CFR 3550.106(a)]

To be eligible for Section 504 funds, the property must be owner occupied and the applicant's sole and primary residence. The property must be considered typical and modest for the area and must not be used for rental or other income producing purposes. However, Section 504 loan or grant funds may be used to improve a home on a property that has income-producing land or a small business, as long as the loan or grant is only used to improve the applicant's residence.

The property must be deemed a single family housing residential unit. The agency will not use 504 program funds to improve multi-family housing, or accessory dwelling units. An accessory dwelling unit is a single family housing dwelling with an attached or detached living quarters that operates independent of the primary unit located on the same site.

A modest dwelling may not have an estimated or appraised value in excess of the applicable area loan limit or an in-ground swimming pool, unless waived by the State Director. Waivers will be documented in the recipient's electronic customer file or case folder and reported to the Director, Single Family Housing Direct Loan Division for informational purposes.

B. Determining Property Value [7 CFR 3550.111]

The Loan Approval Official will determine whether an appraisal is needed to assure adequate security exists for the proposed loan. Section 504 applicants are required to pay an appraisal fee if an appraisal is deemed necessary. The cost of the appraisal fee is described in Paragraph 5.22 and may be included in the 504 loan amount.

If an appraisal is not required, the value and the method used to develop the estimate should be documented in the running record. Utilization of tax assessments, and real estate websites such as Zillow.com, Trulia.com and Realtor.com may be considered as a tool to estimate the value of security. Appraisals are required when issuing an adverse action based on inadequate value of security.

C. Construction Standards [7 CFR 3550.106(c)]

Dwellings repaired with Section 504 loan or grant funds must remain modest and all work must be completed in accordance with local codes and standards. They need not be brought to Agency development standards, nor must all of the existing hazards be removed, provided the property does not continue to have major health or safety hazards after the planned repairs are made. Refer to Section 6, Chapter 5 for all construction management information.

D. Environmental Requirements

Section 504 loans and grants are subject to the same environmental requirements as Section 502 loans, as described in Section 3 of Chapter 5.

12.6 INTEREST RATE AND LOAN TERM [7 CFR 3550.113]

Section 504 loans have an interest rate of 1 percent and a term of 20 years. Section 504 loans are amortized on a monthly basis. Annual payment terms are not permitted.

12.7 MAXIMUM LOAN AND GRANT AMOUNTS [7 CFR 3550.112]

A. Maximum and Minimum Loan Amount

Loan and grant amounts should be rounded to the nearest whole dollar. The maximum and minimum loan that an individual applicant may receive is limited by the four (4) factors discussed below:

- **Outstanding loan amount.** The sum of the outstanding balance on all Section 504 loans may not exceed $20,000 without an exception from the Deputy Administrator, Single Family Housing.
- **Minimum Loan Amount.** A minimum loan amount of $1,000 is required for all initial borrowers.
- **Repayment ability.** The applicant receiving a loan must demonstrate repayment ability based on an analysis of the applicant's TD ratio not to exceed 46%. Please refer to Paragraph 4.22 (B) (2) Establishing TD, for guidance regarding calculating total debt. Compensating factors may be approved by the Loan Approval Official and exceed the TD ratio described in Paragraph 4.24A without approval by a next level supervisor.
- **Eligible costs.** The applicant can only receive loan funds to cover eligible costs. For example, if the applicant has only $5,000 of eligible repairs to make, the maximum loan allowed is $5,000.

B. Grant Limits

Grant amounts should be rounded to the nearest dollar. Grant funds are limited by three (3) factors:

- **Ability to repay a loan**. A grant cannot be awarded unless the maximum level of loans, as supported by a repayment calculation not to exceed of 46% TD ratio, or is awarded in combination with a loan for an applicant age 62 or older.
- **Grant Award Limitation.** The grant award is subject to the applicant's adjusted household income and median household income ratio.
- **Lifetime maximum.** The lifetime grant assistance to any applicant cannot exceed a cumulative total of $7,500.

12.8 LOAN APPROVAL AND CLOSING [7 CFR 3550.108]

A. Loan Approval

Notifications of secured loan approval utilize Form RD 3550-7, Funding Commitment and Notification of Loan Closing. Notifications of unsecured loan approval or denial of credit should be handled with use of Handbook Letter 12 (3550), Notification of Approval, and Handbook Letter 15 (3550), Standardized Adverse Decision Letter, respectively. Preparation of all forms needed to close the loan should be handled in accordance with Chapter 8.

B. Security Requirements

If the total Section 504 loan indebtedness is $7,500 or more, it must be secured by a mortgage on the property. The Agency does not require first lien position, but the total of all debts secured by the property must not exceed the property's market value, except by the amount of any required contributions to an escrow account for taxes and insurance and the tax service fee.

C. Loan Closing

Loans less than $7,500 may be closed by the Loan Originator or designee. Loans of $7,500 and greater must be closed by a closing agent and are subject to the disclosures requirements under the Truth in Lending Act and Real Estate Settlement Procedures Act Integrated Mortgage Disclosures (TRID). The process for selecting a closing agent is the same as for a Section 502 loan and is detailed in Paragraph 8.4.

12.9 GRANT APPROVAL ANDDISBURSEMENT

A. Grant Approval

Grant recipients should be notified by sending Handbook Letter 12(3550), Notification of Approval (504 Grant and/or Loan).

B. Grant Repayment Agreements [7 CFR 3550.114]

Before any grant funds are disbursed, the recipient must sign Form RD 3550-24, Grant Agreement. The agreement states that if a home repaired with a Section 504 grant is sold within three (3) years of signing the grant agreement, the full amount of the grant must be repaid. In the case of a life estate interest or an undivided ownership interest, as described in Paragraph 5.11, all co-owners living or planning to live in the household must sign Form RD 3550-24. The original Form RD 3550-24 should be filed with the promissory notes in a locked cabinet with a copy to the recipient's electronic customer file or case folder, and a copy provided to the recipient. Exhibit 12-2 illustrates owner and co-owner income, assets and signatures required for secured loans and unsecured loans or grants.

Exhibit 12-2

	Applicant Co-Applicant	Co-Owner Resident	Co-Owner Non-Resident	Other Household Members
Verify Income	Yes	Yes	No	Yes
Verify Assets	Yes	Yes	No	Yes
Repayment Agreement	Yes	Yes	No	No
Security Instrument	Yes	Yes	Yes or No*	No

*Undivided interests, life estates and other jointly held property not exceeding 50 percent of ownership, may be excluded by the State Director if permitted by State law for secured loans. See Paragraph 5.11.

C. Documentation of Grants

In order to ensure that applicants do not receive more than the maximum allowable grant assistance of $7,500, the Loan Originator must document the amount of any prior grant provided to each grantee. Since 1998, grant records have been maintained in MortgageServ. A list of grants closed prior to 1998 will be retained in the operational file folder 3550-C "Section 504 Grantee List." When processing grant applications for individuals born prior to 1936, both MortgageServ and the operational file folder will be checked to document if prior assistance was received. For all other grant applications, a MortgageServ check is sufficient.

12.10 ESCROW, TAXES, AND INSURANCE [7 CFR 3550.109, 7 CFR 3550.110]

If the total outstanding indebtedness is more than $15,000, Section 504 borrowers are responsible for furnishing and maintaining hazard insurance, as described in Section 3 of Chapter 7. If funds are not escrowed through another lender to pay for taxes and insurance, the borrower must contribute the appropriate amount to an escrow account managed by the Agency. Escrow is also not required where the security property includes a farm and the property is not subdivided between the farm and non-farm tract unless the housing represents the majority of the value of the security property or it is in the Agency's best interest. Flood insurance is required in Special Flood Hazard Areas (SFHA) throughout the term of a loan, except for loans with an original principal balance of $5,000 or less. For grants of more than $5,000, flood insurance is required when the grant is approved, unless grant funds will be used to obtain the insurance.

12.11 MANAGING REPAIRS AND MINOR REHABILITATION

This section generally refers to work being done which is less complex than new dwelling construction such as subsequent loans, and unsecured Section 504 loans and grants. Typically, the repairs, improvements, or minor rehabilitation (work) discussed within this section would be able to be completed within 30 days of it commencing.

A. Communicating the Standards

The applicant needs to be aware of the standards the local jurisdiction has in place for repairs or improvements to their home before the design or bid process progresses.

Contractors should be provided with a scope of work by the applicant to ensure that the repair estimates for labor and materials are consistent with the homeowners' expectations. If application fees and permits are required, the scope of work will identify the party responsible for submitting the permit fees and approval from the local jurisdiction.

B. Selecting the Contractor

While a list of approved contractors should not be maintained, the Agency may provide applicants with sound advice on selecting a contractor (e.g. encouraging competitive bids, checking references, Better Business Bureau, etc.). The Loan Originator should discuss any concerns from their initial review with the homeowner in order to assist with their decision on selecting their contractor(s) to make the repairs, or improvements to their dwelling. The Loan Originator should document in the running record which contractor(s) the homeowner selected.

The contractor must have a valid contractor's license if required by the local jurisdiction, and such license must be documented by the Loan Originator. In many cases, the applicant will have a contractor in mind. Detailed specifications are not required however; the contractor's bid should include a breakdown of materials and labor and describe the quantity, quality, grades, styles, model numbers, etc. to identify the work and materials to be furnished.

The applicant will provide an adequate number of bid(s) from a qualified contractor(s). The local office must review the bid(s) obtained to ensure costs are reasonable for the area serviced and the number of bid(s) are sufficient. The bid(s) must be detailed to include cost of material, size, quantity and manufacturer. Refer to Paragraph 5.26 for guidance and requirements on minor rehabilitation.

C. Pre-Construction Conference

Once the funding has been obligated, the Agency, the applicant(s), and the contractor(s) are required to hold a pre-construction conference using Attachment 12-F, Pre-Construction Conference prior to work commencing. The purpose of the conference is to ensure that each party understands their respective roles and responsibilities. The parties should review the contract or accepted contractors bid/proposal, start date, estimated completion date, requirements and specifications to ensure all parties understand the scope of work, construction/thermal standards, environmental mitigation requirements, fees, materials, inspection requirements, change orders, responsibilities for access, cleanup, and payment procedures.

D. Construction Contract

Written contracts using Form RD 1924-6, "Construction Contract" are strongly recommended for all rehabilitation-related construction and are required if the construction work will affect the dwelling's structural integrity (widening doorways, removing walls, foundation work, termite/water damage, etc.). A contract or bid not exceeding $10,000 may use, Form RD 1924-6, "Construction Contract" however; but it is not required. Contractors commonly have bid acceptance language at the bottom of their bid proposals, regardless the homeowner's signature is required as it binds the agreement (contract). The applicant and contractor must sign the contract(s) or bid/proposal no later than at the pre-construction conference. If there are multiple contracts or bids, Form RD 1924-1, Development Plan with cost estimates and bid specifications must be used. Separate contracts and arrangements which split responsibility of contractors (multiple small contracts at the same time), should be avoided whenever it is practical to do so.

12.12 COMMENCEMENT OF WORK

Once the contract or bid has been accepted and/or signed, the pre-construction conference has been held, the work may begin. Generally, the complexity of most repairs and minor rehabilitation will not require periodic inspections by Agency staff. The homeowner and contractor should communicate with Agency staff any unforeseen issues that arise which could increase costs or jeopardize timely completion.

A. Inspecting the Work

The homeowner will be responsible for making inspections necessary to protect their interest. Agency inspections, or acceptable alternatives are to ensure the funds were used for the completion of the improvements, minor rehabilitation, or repairs as outlined without implication of duty or obligation to the homeowner. The inspection(s) may be conducted on-site by Agency Staff utilizing Form RD 1924-12, Inspection Report, or by alternative methods such as photos, videos, and written reports provided to the Loan Originator

Qualified third-party inspectors may be used when on-site inspections or alternative methods are not feasible. The cost for these services may also be reimbursed to the homeowner with loan or grant funds. Because of additional costs to the homeowner, payment for qualified third-party inspectors is not the preferred method. If inspections are conducted by a third party, the inspector should submit periodic inspection reports to the Agency.

B. Payment Upon Completion

1. Payment Options

Before the Loan Originator initiates payment, they must ensure that the homeowner is satisfied with the work completed. The homeowners acceptance of work completed must be documented on Form RD 1924-9, Certificate of Contractors Release prior to issuance of payment. The number and timing of inspections varies by the type and extent of work performed.

Once work has commenced, there are two payment options. The first and preferred method is lump sum payment upon completion of work. The second is multiple advances for work in place in accordance with HB 1-3550, Paragraph 5.26 C. Multiple advances are used to pay the contractor for work completed and calculated not to exceed 60% of the value of work in place for that portion of the contract (i.e.; contract $10,000, 25% of work completed, calculated as: 0.25 x $10,000 x 0.60 = $1,500 payment). When payment is made to multiple contracts, advances can be performed in lump sum to pay each contractor for work in place.

C. Required Forms

The Loan Originator determines acceptability of documentation submitted showing completion of repairs and documents running record accordingly.

1. **For unsecured loans and grants the following documents should be submitted prior to final payment**.:

- Form RD 1924-9, Certificate of Contractor's Release including an applicant/owner signature(s) confirming their acceptance of the work.
- Photos of the completed work as provided by the owner or contractor,
- A copy of a third-party inspection (if applicable).

2. **For secured loans Loan Originator must receive the following documentation prior to final payment:**

- Form RD 1924-9, Certificate of Contractor's Release including an applicant/owner signature(s) confirming their acceptance of the work
- Form RD 1924-10, Release by Claimants, or similar
- Form RD 1924-19, Builder's Warranty, or similar
- Form RD 1924-12, Inspection Report, or a copy of a third-party inspection (if applicable) or photos of the completed work as provided by the owner or contractor.

D. Borrower Method [RD Instruction 1924-A, 1924.6 (b)]

Borrower method can be used when the construction method is not feasible, and the borrower demonstrates the capacity and experience to oversee the construction process. This method increases risk for the agency and provides the least amount of coverage to the borrower. If this method is utilized, the total development of rehabilitation and repairs cannot exceed $5,000. A detailed estimate of labor and materials should be obtained in writing, with the exception for amounts less than $100. The Agency has two payment options:

- Checks can be made payable directly to the laborers and the seller for equipment and materials furnished, or
- Checks can be issued to the owner, if the owner has paid for labor/material out of pocket and obtained all the signatures of the workers who performed labor on Form RD 1924-11, "Statement of Labor Performed".

The following documentation should be completed prior to final payment:

- Form RD 1924-1, Development Plan,
- Form RD 1924-11, Statement of Labor Performed for each worker involved in performing borrower method paid labor,
- Itemized invoice from the contractor to include all equipment and materials furnished,
- Homeowners' written acceptance of the completed work,
- Photos of the completed work provided by the owner.

12.13 CLOSEOUT PROCESS

Once work is satisfactorily completed, the Agency will release the final payment to the homeowner and their contractor. The homeowner is party to the contract and therefore responsible to pay their contractor. Before payment occurs, the Loan Originator ensures that the work has been accepted by the homeowner. If construction or rehabilitation work cannot be completed because the contractor is unable or unwilling to do so, (even with the Agency's assistance), loan funds will be applied to reduce the borrower's principal balance. Grant funds will be returned to the NFAOC.

If the homeowner refuses to pay the contractor due to a dispute or unsatisfactory workmanship, the Agency or a third-party inspector will perform an on-site inspection. The undisbursed funds will be processed in the following manner:

- If litigation is pending, the Agency will consult with the Office of the General Counsel prior to disbursing or returning funds.
- If litigation is not pending, the Agency will return remaining funds to be applied to the borrower's loan or grant amount. Once funds have been disbursed or returned, loans must be converted to permanent accounts on the first of the following month. The homeowner should also be advised of their contractual obligations, and may wish to seek their own legal counsel.

A. Funds Remaining After Completion [RD Instruction 1951-A, 1951.11(b)(3)]

Funds remaining after completion of construction and disbursement payment to the contractor, may either be returned as unused funds or used toward an eligible repair. Loan funds returned will be curtailed to principal. However; if a borrower received a combination loan and grant, the remaining funds will first be returned to reduce the grant amount. A notice informing the borrower of their right to appeal must be issued within 10 days of the determination to return unused funds. The remaining funds must be returned within 90 days.

Example - Joe Smith receives $6,000 in combination loan and grant assistance ($2,000 loan and $4,000 grant funds). The repairs are completed and invoiced at only $4,000, less than the original contract price. The remaining $2,000 will be returned as unused funds to reduce the grant (not the loan).

B. Disbursement [DLOS Manual Chapter 8]

Loans and grants can be disbursed utilizing either multiple draws or single check disbursement (lump-sum payment). For larger or long-term construction/rehabilitation projects (exceeding 30 days) a supervised bank account may be necessary for multiple disbursements.

When ordering multiple draws for loan-grant combinations, additional draws on the grant portion cannot be performed once the loan has been fully disbursed. To order multiple draws, the purpose code on the registration screen in Unifi must be coded 40 (construction loan). This code will transfer to the new loan screen in MortgageServ which should reflect a close code of "5" and verified during loan closing.

C. Cancellation of Funds

Partial or full cancellation of loan and grant funds can be performed in accordance with DLOS Manual Chapter 8. If a Treasury Check is held by the Agency, it must be voided and returned to NFAOC with form RD 3550-17, “Funds Transmittal Report”. The following reason codes may be used on the Funds Transmittal Report:

05	Cancellation of Treasury Funds (loan or grant)
20	Principal Curtailment

ATTACHMENT 12-A

SUMMARY OF DIFFERENCES BETWEEN SECTION 504 LOANS AND GRANTS

Note: This attachment summarizes key requirements to assist the reader in comparing Section 504 loans and grants. It is not a comprehensive description of all requirements.

Topic	Section 504 Loan	Section 504 Grant
Use of Funds	May be used to: (1) improve or modernize; (2) make dwelling decent, safe, and sanitary; (3) remove hazards. Cannot be used for acquisition or new construction. Specific prohibitions are listed in Paragraph 12.2 A.	May be used only to remove health and safety hazards or to make dwelling accessible to household member with disabilities.
Drug-Free Workplace	N/A	Applicants must certify that they will not engage in the unlawful manufacture, distribution, dispensing, possession, or use of a controlled substance in conducting any activity with the grant.
Credit Reports	Required for all applicants with adjusted income exceeding 30% AMI but no fee charged.	N/A
Age of Applicant	N/A	62 or older
Leaseholds	The property must be covered by a lease with an unexpired portion of not less than 2 years beyond the term of the promissory note.	The remaining lease period must be at least 5 years.
Appraisals	Fee charged if appraisal completed.	N/A
Maximum Assistance	$20,000 outstanding at one time.	$7,500 lifetime limit.
Security	If Section 504 loan is >or equal to $7,500, a mortgage is required.	No security required.
Insurance	If indebtedness >$15,000, property insurance is required. Flood insurance is required in Special Flood Hazard Areas (SFHA)> $5,000.	Flood insurance is required in SFHA at grant approval for grants of >$5,000.

ATTACHMENT 12-B

DIFFERENCES BETWEEN SECTION 502 AND SECTION 504 LOANS

Note: This attachment summarizes key requirements to assist the reader in comparing Section 502 and 504 loans. It is not a comprehensive description of all requirements.

Topic	Section 502 Loan	Section 504 Loan
PROGRAM PURPOSES AND PRIORITIES		
Program Purpose	Assist applicants who are not homeowners to become homeowners.	Assist current homeowners with necessary improvements and repairs.
Processing Priorities	Multiple priorities may apply. Applications that meet special criteria are processed immediately upon funding availability.	Multiple priorities apply, but applications for assistance to remove health and safety hazards receive first priority processing. Veteran's preference is used for applications with the equivalent priority status received on the same day.
LOAN PURPOSES		
Eligible Purposes	In general, funds may be used to buy, build, rehabilitate, improve, or relocate an eligible dwelling and provide related facilities for the borrower to personally occupy. No initial loans for repair of manufactured homes.	Remove health and safety hazards. Repair or remodel dwelling to make more accessible and useable for a household member with a disability. General repairs to improve or modernize a home. Repair mobile or manufactured homes with a permanent foundation.
APPLICANT ELIGIBILITY		
Income	Applicant income must not exceed low-income limit at loan approval and must not exceed moderate-income limit at loan closing.	Applicant income must not exceed the very low-income limit at loan approval and closing.

Topic	Section 502 Loan	Section 504 Loan
APPLICANT ELIGIBILITY		
Credit Requirements	Credit history must demonstrate ability and willingness to pay. Costs for credit reports are charged to applicant.	Applicants must have a credit history that indicates a reasonable ability and willingness to meet debt obligations. Costs for credit reports are not charged to the applicant.
Asset Requirements	Applicants are required to contribute nonretirement assets exceeding $15,000 ($20,000 for elderly households) toward the purchase of the property.	Same as Section 502, except nonretirement assets include only assets that can be converted to cash within 90 days.
Repayment Ability	Applicants must show repayment ability based on PITI and TD ratios.	Applicants must show repayment ability based on a TD ratio of 46% or less.
Ownership	The applicant need not own the property. A leasehold must have an unexpired term of at least 150% of the term of the mortgage, unless the loan is guaranteed by a public authority, Indian tribe, or Indian Housing Authority. No exceptions on ownership evidence.	The applicant must own the property. A leasehold must have an unexpired term of at least 2 years beyond the loan term. If standard evidence of ownership is unavailable, exceptions may be made.

Topic	Section 502 Loan	Section 504 Loan
PROPERTY REQUIREMENTS		
Area Loan Limit	Individual exceptions are allowed.	Individual exceptions are allowed.
Property Standards	The property must meet the Agency's site and dwelling standards.	The property: (1) need not be brought to Agency development standards; (2) need not have all hazards removed; **but** (3) must have all major hazards removed.
Appraisals	An appraisal is required when the debt is to be secured and prior liens exceed $15,000. Applicants are required to pay an appraisal fee which may be included in the loan.	The Loan Official determines when an appraisal is needed. Applicants are required to pay an appraisal fee which may be included in the loan.
LOAN TERMS		
Interest Rate and Loan Terms	The applicable Rural Housing (RH) Section 502 low or moderate interest rate in effect at loan approval or closing, whichever is lower. Standard term is 33 years; some applicants may qualify for a 38 year term. Borrowers may be eligible for payment subsidies that reduce the effective interest rate.	1 percent interest rate and a standard loan term of 20 years.
Loan Amount	Total secured indebtedness must not exceed the area loan limit or the market value by more than 5 percent	Total secured indebtedness must not exceed the area loan limit or the market value limitation. The outstanding balance on the sum of all Section 504 loans cannot exceed $20,000.

Topic	Section 502 Loan	Section 504 Loan
LOAN APPROVAL AND CLOSING		
Loan Closing	Loans must be closed by a closing agent.	Unsecured loans less than $7,500 may be closed by the Loan Originator or a designee.
Security	First liens are generally required, but Agency interests may be subordinated in some circumstances.	First lien position is **not** required.
INSURANCE		
Insurance Requirements	If indebtedness is greater than $15,000, property insurance is required.	If indebtedness is greater than $15,000, property insurance is required.

504 SINGLE FAMILY HOUSING LOAN AND GRANT CHECKLIST

"THIS CHECKLIST DOES NOT REPLACE THE RUNNING RECORD!"
(This document should be filed in position 1)

Applicant:_____ **Co-Applicant:**_____
Review application for completeness within 3 business days of receipt. Call or write the applicant to request any missing information. Follow up with a letter advising applicant of a 15-day deadline for submission or the application will be withdrawn, or a 30-day deadline to obtain repair bid(s). Mark files as inactive until complete. **(HB-1, 3.6)**

POS	DATE	APPLICATION PROCESSING
3	_	**RD 410-4, Uniform Residential Loan Application,** include information sheet similar to Attachment 3-D and **RD 3550-1, Authorization to Release Information (HB-1, 3.5)**
3	_____	**Infile Credit Report (HB-1, 3.3, 4.11)**
	_____	**If a secured loan application is subject to TRID, forward the following documents as applicable to the applicant within 3 business days of receipt of the application (HB-1, 3.8):**
		_____ **CFPB's "Your home loan toolkit: A step-by-step guide"**
	2	_____ **CFPB's Loan Estimate form**
	2	_____ **Attachment 3-I, Settlement Service Providers List & Mortgage App. Related Disclosures**
2	_____	**For an unsecured loan, send RD 1940-41, Truth in Lending Statement. Date Returned:** _____
3	_____	**Check Treasury's DNP portal,** and file in applicant file **(HB-1, 4.11, 12.4B)**
3	_____	**Check MortgageServ's "SSN CROSS REFERENCE" softlink key (HB-1, 4.11, 12.9C)**
3	_____	**Check list for 504 Grant recipients born prior to 1936 for prior assistance** ($7,500 lifetime limit**) and document in running record (HB-1, 12.9C)**
3	_____	**Identification** and **Verification of age** (grants only) **(HB-1, 4.21)**
		_____ **Evidence of age** _____ **Taxpayer's ID number** _____ **Photo ID**
5	_____	**Evidence of homeownership and occupancy:** (copy of Deed, RE Tax Bill, etc.) **(HB-1 12.4F)**
6	_____	**Verify eligibility of subject property. (HB-1, 5.1)** http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do
3	_____	**Enter application complete date in stage updating of UniFi and on Form RD 410-4**
4	_____	**Funds Available; send HB Letter 11, Request Information (HB-1, 3.13)**
4	_____	**Funds Not Available; send HB Letter 2, Funds Not Available (HB-1, 3.12)**

POS DATE ELIGIBILITY PROCESSING

3 _____**Document repayment ability,** TD ratio does not exceed 46% without documented compensating factors **(HB-1, 12.7)**.

INCOME

3 _____**RD 1910-5, Request for Verification of Employment –** if paystubs are not available **(HB-1, 4.3)**:
_____If no response in 14 days, call employer to follow up and document the discussion

3 _____**Other Income/Asset documentation (HB-1, 4.3, 4.5):**
_____Public Assistance _____Self-employment income
_____Child Support/Alimony _____Social Security/VA Benefits
_____Unemployment Benefits _____Pensions/Annuities
_____Latest two Federal Income Taxes with W-2s and applicable schedules
_____**RD 3550-4, Employment and Asset Certification** _____Other
_____Two (2) most recent asset statements (bank accounts, retirement funds, etc._)

3 _____**Automated Worksheet for Computing Income and 504 Eligibility**

DEDUCTIONS

3 _____**Deduction documentation (HB-1, 4.4):**
_____Child Care _____Educational Assistance Expenses
_____Elderly/Disabled (**RD 1944-4, if applicable)**_____Full-time Student status
_____Medical Expenses _____Minor Dependent
_____Other

3 _____**Separation/Divorce/Paternity/Property Settlement Agreement,** if applicable

CREDIT

3 _____**Tri-Merge Credit Report (TMCR) documentation** (Only loans $7,500 or greater) [no grants] – no charge to the applicant) **(HB-1, 4.12 & 12.4):**
_____Report: Requested_____Received_____
_____Document in item 19 of RD 410-4
_____Credit Scores: Applicant_____Co-Applicant _____

3 _____**Credit score is less than 620 (HB-1, 12.4B):**
_____Applicant Reference Letter **(RD 410-8)**
_____Credit History Worksheet **(1944-61)**

OTHER

3 _____**RD 3550-2, Request for Verification of Gift/Gift Letter,** if applicable - **(HB-1, 4.3 & 6.15)**

3 _____**Document applicant lacks personal resources and meets non-retirement asset limitations** ($15,000; $20,000 for elderly households) **(HB-1, 4.6, 6.10, and 12.4C)**

3 _____**Citizenship status** (if not a citizen, see HB-1-3550, Attachment 4-D (S.A.V.E.) **(HB-1. 4.20)**

3 _____**Document Eligibility on originally submitted Application - item 17.** Update UniFi/Stage Updating

2 _____**RD 3550-23, Applicant Orientation Guide (HB-1, 4.26 loans only)**

2 _____If changed circumstances occur, issue revised Loan Estimate within 3 business days of receiving new information, but no later than 4 business days prior to loan consummation.

POS DATE PROPERTY ELIGIBILITY

3 _____**Property eligibility determination** (document with Automated Worksheet for Computing Income and 504 Eligibility) **(HB-1, 12.3) Method used:** (site visit, online resources) _____

6 _____**Verify the subject property's address using the USDA address verification site. Result code must be 1 or 2; or researched, verified, and documented if not. Enter verified address in UniFi. (HB-1, 5.1) (**http://eligibility.sc.egov.usda.gov/eligibility/addressVerification**)**

6 _____**Checklist for Evaluation of Existing Dwelling (HB-1, 12.3, Attachment 12-D)**, if applicable.

6 _____**Photographs of property and essential repairs** (before and after). **(HB-1, 12.12)**

8 _____**Appraisal Report, or document Statement of Value (HB-1, 12.5B)**

8 _____**RD 1922-15, Administrative Appraisal Review for Single Family Housing** -within 7 days of appraisal **(HB-1, 5.21); Reviewed and Accepted_____(initial and date)**

6 _____**Lead Based Paint (LBP) Compliance Key and Print Out (houses built prior to 1978)** (http://leadpaint.sc.egov.usda.gov/LBPWeb/index.html)

3 _____**RD Instruction 1970-B, Exhibit D, "Environmental Checklist for Categorical Exclusions" (1970-B & HB-1, 5.8)**

3 _____**FEMA's Standard Flood Hazard Determination Form (HB-1, 5.8 & 1970-F)** (https://www.floodcert.com)

3 _**FEMA's Elevation Certificate Form, (HB-1, 5.8 & 1970-F),** if substantial rehabilitation (https://www.fema.gov/media-library/assets/documents/160)

3 **Private Party Notice Regarding Flood Hazards, as applicable (HB-1, 5.8 & 1970-F)**

3_____**RD 3550-6, Notice of Special Flood Hazards, Flood Insurance Purchase Requirements, and Availability of Federal Disaster Relief Assistance,** as applicable (mail 10 days prior to closing) **(HB-1, 5.8)**

POS DATE CONSTRUCTION

5 _____**Check contractor(s) in the DNP portal and place a copy in applicant's file**

6 _____**Attachment 12-F. Pre-Construction Conference (HB-1, 12.3)**

6 _____RD 1924-7, Contract Change Order, if applicable

CONTRACTS $10,000 OR LESS

7 _____ **Review detailed bid(s) from contractor(s)** itemized costs to include labor and materials **(HB-1, 5.25) or use 1924-6, Construction Contract and RD 1924-7, Contract Change Order,** if applicable

6 _____**RD 1924-1, Development Plan**

6 _____**RD 1924-9, Certificate of Contractor's Release**

6 _____**RD 1924-10, Release by Claimants if subcontractors are used**

6 _____**Pictures of repairs before and after**

CONTRACTS > $10,000

6 _____**RD 1924-6, Construction Contract**

6 _____**Ex C, RD Inst. 1901-E (HB-1, 12.11) DOL** within 10 days, DOL website (https://www.dol.gov/ofccp/contacts/regkeyp.htm)

6 _____**"400 Series" (400-1, 400-3, 400-6, posters) (HB-1, 5.25)**,

2 _____**RD 402-1, Deposit Agreement and RD 402-2, Statement of Deposits and Withdrawals,** if applicable

6 _____**RD 1924-12, Inspection Report (HB-1, 12.12)** if an on-site visit was necessary

6 _____**RD 1924-9, Certificate of Contractor's Release**

6 _____**RD 1924-10, Release by Claimants**, if applicable

6 _____**RD 1924-11, Statement of Labor Performed** (borrower method only)

6 _____**RD 1924-19, Builder's Warranty (HB-1, 5.27),** if construction contract used

POS	DATE	UNDERWRITING/APPROVAL
3	_____	**Reverify income** - if over 120 days old **(HB-1, 8.6)**
2	_____	**Verify UniFi Program Type Code** (must match income type) **Program Type Code: _____**
2	_____	**Update all screens in MortgageServ before uploading file; check Display History Screen for correct loan / grant amount.**
4	_____	**If rejected, use HB Letter 15 (3550), Standardized Adverse Decision Letter, and attach review & appeal rights (HB-1, 1.9 & 8.2)**
2	_____	**RD 3550-7, Funding Commitment and Notification of Loan Closing** – issued when **secured** loan funds are obligated in MortgageServ (if not accepted and returned in 15 days, deobligate) (**HB-1, 8.2**)
4	_____	**Handbook Letter 12 (3550), Notification of Approval** – issued when **unsecured** loan and/or grant funds are obligated in MortgageServ.
2	_____	**Obligate through MortgageServ (HB-1, 8.7).**

POS	DATE	CLOSING
5	_____	**RD 1927-4, Transmittal of Title Information (HB-1, 8.4)**
5	_____	***Title Insurance*** *required for loans $7,500 or greater* ***(HB-1, 8.4)***
5	_____	**RD 1927-9, Preliminary Title Opinion** (loans $7,500 or greater), as applicable **(HB-1, 8.4)**
7	_____	**Hazard Insurance Binder & Receipt for 1st year premium** for loans $15,000 or greater (**HB-1, 7.12)**
7	_____	**Flood Insurance Binder & Receipt for 1st year premium** required for properties located in Special Flood Hazard Area (Loans and grants $5,000 or greater)
5	_____	**Review Title Insurance Binder/Preliminary Title Opinion and verify legal description is correct** If exceptions noted affect the security value, loan cannot close **(HB-1, 8.5)**
7	_____	**RD 3550-15, Tax Information** – loans $15,000 or greater **(HB-1, 7.10)**
5	_____	**RD 3550-9, Initial Escrow Account Disclosure Statement,** loans $15,000 or greater **(HB-1, 7.5 & 12.10)**
5	_	**RD 3550-25, Loan Closing Instructions and Loan Closing Statement –** for loans $7,500 or greater (should include documents to be signed at closing) **(HB-1, 8.11)**
2	_	**RD 3550-17, Funds Transmittal Report** for tax service & appraisal fees, escrow funds, etc. (copy in Collections Operational File) **(1951-B, if applicable)**
5	_____	**RD 3550-19, Transmittal-Closing Documents & Attachments,** as applicable (Grant documents are not sent to NFAOC) **(HB-1, 8.11)**
3	_____	**RD 410-4, Uniform Residential Loan Application - PRINTED FROM UniFi**
3	_____	Check the contractor using Treasury's DNP portal **–** print hard copies for file **(1940-M)**
5	_____	**RD 1927-5 "Affidavit Regarding Work of Improvement"** (if required by State Supplement) send blank to closing **(1927-B, 1927.58)**
2	_____	**RD 1940-16, Promissory Note** (original in safe) - all loans **(HB-1, 8.9)**
5	_____	**Closing Disclosure (HB-1, 8.5),** review for compliance with tolerance limits **(secured loans)**

POS	DATE	CLOSING (CONTINUED)
2	_____	**RD 1940-41, Truth in Lending Statement** – if applicable for an unsecured loan **(HB-1, 3.8B)**
2	_____	**RD 1940-43, Notice of Right to Cancel** - if secured loan **(HB-1, 8.6)**
5	_____	**RD 3550-14, Real Estate Mortgage** or **Deed of Trust for (State)** – ($7,500 or greater – sent blank) **(HB-1, 8.11)**
5	_____	**RD 1927-10, Final Title Opinion,** if applicable
5	_____	**RD 1927-8, Agreement with Prior Lienholder,** if applicable **(HB-1, 8.6)**
2	_____	**RD 3550-24, Grant Agreement** (original in safe; copy in case file) **(HB-1, 12.9)**
5	_____	**RD 3550-29, Document Errors and Omissions Agreement (HB-1. Attachment 8-A)**

POS	DATE	POST CLOSING
5	_____	**Verify closing documents faxed to NFAOC in required time frame (HB-1, 8.11)**
		_____ Verify proper lien position.
		_____ Post 1 month follow-up for recorded Real Estate Mortgage.
		_____ Post follow-up for Title Insurance Policy **(60 days)** or Final Title Opinion **(14 days**). (If not received, contact Closing Agent by mail with a copy of the letter to the insurance company.)
2	_____	**Activate loan (wait until the rescission period has expired, if applicable)**
5	_____	**Review final Loan Estimate & Closing Disclosure for tolerance violations.** Cure violation within 60 days of closing.
5	_____	**RD 3550-25 – Loan Approval Official approves after all forms are returned, reviewed, and correct (HB-1, 8.11 secured loans)**
2	_____	**Delinquent/Lienholder Screen –** complete MortgageServ screen for each leveraged partner – Include forgivable loans from CDCs and Non-Profits

CHECKLIST FOR EVALUATION OF EXISTING DWELLING

Owner-Occupant Name _____ Property Address _____

Co-Owner Occupant Name _____ Account Number _____

Mark the appropriate box to indicate the condition of each element.

Yes	No	Health / Safety Hazard	Element
			1. Entry, Exit, Walkway and Driveway. Porches, stairs, decks are sound and free of deterioration. Handrails are required for extended stairs generally four or more consecutive steps. Walkways, porches and decks pose no safety hazards and provides adequate accessibility for a household member with a disability, if applicable.
Comments:			
			2. Exterior Walls. Exterior walls do not exhibit signs of structural fatigue, failure, or excessive bowing. The siding is free of any rot or paint that is loose, peeling, chipping, scaling, or cracking. Vinyl or aluminum siding is free of mildew. Brick or stone veneer is sound and exhibits no displacement.
Comments:			
			3. Utilities. The property is connected to a water/septic system that is approvable by an appropriate public agency. The system is adequate for the size of the property and is performing satisfactorily. The dwelling has adequate, safe, dependable utilities with no evidence of malfunction.
Comments:			
			4. Foundation. The foundation is structurally sound with no evidence of defects such as cracks, bowing or moisture intrusion. If a deficiency is noted, describe the nature of the deficiency and report necessary repairs, alterations or required inspections to alleviate the deficiency. Gutters, downspouts and grading are functioning adequately and provide proper drainage, if applicable.
Comments:			
			5. Roof. The roof is satisfactory and free of serious defects such as buckling, sagging, holes, leaking and is expected to last a minimum of 2 years.
Comments:			

Yes	No	Health / Safety Hazard	Element
			6. Interior walls, framing and trim. Structurally sound and are exhibiting no signs of bowing, sagging, or deterioration.
Comments:			
			7. Windows. Windows are functional, adequate and energy efficient exhibiting no obvious signs of deterioration.
Comments:			
			8. Framing. Floor, subflooring, ceiling joists and partition framing are sound and exhibit no structural deficiencies**.**
Comments:			
			9. Floor covering. Structurally sound and without presence of cracks, holes, buckling, damage, heavily worn or soiled**.**
Comments:			
			10. Plumbing. Functionally adequate water pressure, flow and waste removal. Water heater and sump pump are functional. Plumbing fixtures exhibits no evidence of leaks, damage.
Comments:			
			11. Heating and Air Conditioning. Functionally adequate
Comments:			
			12. Electrical Wiring. Functionally adequate.
Comments:			

Additional Comments: _____

_____

_____

_____

_____ _____
Reviewer Signature Date

CHECKLIST OF ITEMS TO ACCOMPANY APPLICATION FOR HOME REPAIR LOAN OR GRANT FUNDS

Applicant Name:_____Phone:_____Cell: _____

Co-Applicant Name:_____Phone:_____Cell: _____

Applicant Email:_____Co-Applicant Email: _____

Preferred contact? Mail:_____Phone:_____Cell:_____Email: _____

Check the boxes below when completed

REQUIRED FORMS: Please submit the following documentation:

- Form 410-4, "Uniform Residential Loan Application" complete, sign and date pages 5 & 8.
- Form 3550-1 "Authorization to Release Information" for each adult household member.
- Form 3550-4, "Employment & Asset Certification" for each adult household member.

INCOME:

- Verification of **all household income**. To qualify for the program, a household's adjusted income must be within the established income limit based on size and location. Below are some examples of income that may be applicable to all household members and what should be provided to the Agency.
    - Copies of the last four week's consecutive pay stubs.
    - Copies of recent benefit statements for regular unearned income (such as social security, public assistance, retirement income, etc.).
    - Last 12 month payment history of alimony and/or child support received as provided by the court appointed entity responsible for handling payments. If this is not available, a copy of the separation agreement or divorce decree.
- For each applicant, a complete copy of their last two signed and filed Federal Income Tax Returns. IRS Form W-2, "Wage and Tax Statement," and/or IRS Form 1099-MISC, "Miscellaneous Income", must be attached. For returns mailed to the IRS, provide a copy of the signed document. For returns filed electronically, include a copy of the signature page with the Self-Select PIN, confirmation that the return was accepted, or evidence that it was filed by an authorized E-File provider.
- For each applicant, a signed IRS Form 4506-T, Request for Transcript of Tax Return https://www.irs.gov/pub/irs-pdf/f4506t.pdf

- For each non-retired applicant, a written explanation of employment history of less than two years or employment gaps in excess of 30 days within the last two years.

ASSETS, CREDIT, OTHER DOCUMENTATION:

- For each applicant, a copy of their two most recent asset/bank statements. (Note that if you are obtaining this information through online banking, you should print your bank statement, as opposed to printing the online transaction history.)
- For each applicant, a written explanation for late payments, collections, judgments, or other derogatory items in their credit history of which they may be aware. If applicants are unsure what their credit history looks like, they can obtain a free credit report by calling 1-877-322-8228 or logging into http://www.annualcreditreport.com. By law, individuals are entitled to receive one free credit file disclosure every 12 months from each of the nationwide consumer credit reporting companies – Equifax, Experian and TransUnion. This free report cannot replace the credit report that the Agency will obtain to determine eligibility.
- For each applicant, verification of their identity. A copy of a Government-issued photo identification, evidence of date of birth (only required if not listed on the photo identification).
- For a household member who is a full-time student and 18 years of age or older, a copy of their school transcript.
- If applicable, provide written evidence of child care expenses for dependents 12 years of age or younger.
- If applicable, evidence of out of pocket annual medical expenses (for applicants 62 years of age and older, or individuals with a disability) who wish to be considered for a deduction to household income.

PROPERTY INFORMATION:

- Evidence of Ownership: Copy of Deed, or other documentation.
- Tax Statement: Most recent property tax assessment and annual statement, if applicable.
- Insurance: Evidence of homeowner's hazard or flood coverage, if applicable.
- Repair Bid(s) including an itemized description of repairs, material, labor, and a copy of Contractor's license, if applicable.
- Mortgage Statement: Most recent copy of mortgage statement, if applicable.
- Photos of repair(s) and the front and back of property.

PRE-CONSTRUCTION CONFERENCE

Owner Name(s):_____Contractor: _____

A Pre-Construction Conference was held ( ) in person, ( ) by telephone on _____ to review the contract/bid and/or specifications dated_____for work to be completed and performed at the property address,_____.

The Contractor will start work on_____, and will complete the work by_____.

- Although Rural Development (RD) is interested in the proper completion of the work, RD is not and will not become a party to the contract nor incur any liability thereunder.
- Parties involved have reviewed the plans and specifications/bid and understand the scope of work, construction standards, environmental requirements, materials, liquidated damages, inspections, change orders and payment procedures.
- The Contractor will submit evidence (i.e. unconditional lien waivers) that all payrolls, labor, equipment and material bills, and other indebtedness connected with the work have been paid and at completion of the Contract, will furnish and sign Form RD 1924-10 "Release of Claimants", Form RD 1924-9 "Certificate of Contractor's Release", and RD 1924-19 "Builders Warranty" (or similar documentation).
- Acceptance by the Owner will not relieve the Contractor of obligation to the Owner to discharge any and all liens for the benefit of subcontractors, laborers, material, person, or any other persons performing labor upon the work or furnishing material or machinery for the work covered by this contract, which have attached to or may subsequently attach to the property, or interest of the Owner.
- All notices, consents, or other acts to be given or done hereunder shall be valid only if in writing.
- Disputes in the construction and/or completion of the contract will be resolved between the Owner and the Contractor with RD remaining informed by both parties.
- Should a dispute arise between the Contractor and Owner, the Contractor will have 90 days to complete court proceedings. If these actions are not taken within this timeframe, RD will return funding obligated toward the project and the Owner will be responsible for the decision rendered by the judge.

Responsibilities:

- Owner is responsible to monitor progress of proposed repairs, approve payments to contractor as specified in contract, and attend final inspection. Owners are responsible for property inspections, to address any faulty or defect in work or nonconformance with the contract and provide written notice to RD to protect their own interests.

- Contractor's responsibilities include obtaining and displaying posters and permits as required, perform work in accordance with approved plans, specifications and apply for preapproval for contract change orders if necessary. Notify owner and RD when work is complete. It is the Contractor's responsibility to obtain and furnish RD with all permits, inspections and approvals required by the local code department. Be advised that should human remains, historic or cultural resources be uncovered during excavation or site development, all work must be stopped until an additional environmental analysis is completed.
- RD's responsibility is to protect the government's interest, monitor progress of construction, authorize partial payments, final payments, and authorize contract change orders. RD inspections do not create or imply duty or obligation to the owner and are conducted to determine whether the property provides adequate security and dwelling requirements.

Check the applicable:

___ Contract is in excess of $10,000 and subject to Executive Order 11246, as amended. Form RD 400-1 has been executed by the Owner, Form RD 400-3 has been issued by the Agency along with applicable posters to be displayed at the job site, and Form RD 400-6 has been executed by the Contractor. Established affirmative action goals for women and minority construction participation are included in the contract, or;

___ Contract is not in excess of $10,000 and is not subject to EO 11246.

___ Contractor and subcontractors (if applicable) greater than $25,000 sums have executed Form AD 1048, "Certification Regarding Debarment, Suspension, Ineligibility" in accordance with EO 12549; or

___ Contract sum is $25,000 or less and Form AD 1048 is not required.

___ Form RD 1924-25, "Plan Certification" is required and has been completed; or

___ Form RD 1924-25, "Plan Certification" is not required.

___ Contractor will obtain applicable building and occupancy permits; or

___ No building or occupancy permits are required.

___ The presence of Lead-Based Paint (LBP) is presumed. Contractor will use EPA certified Safe Work Practices in accordance with 24 CFR 35.1350, HUD LBP regulations during completion of work to be performed. Upon completion of the contract, the area in which the work was performed will be subject to a LBP Clearance Test, as performed by a licensed LBP Inspector or Risk Assessor. Should the test results indicate an unacceptable level of LBP residue, the Contractor will be responsible for additional cleanup, and providing an acceptable clearance report from a LBP Inspector or Risk Assessor to RD. No payment for work will be made until an acceptable clearance report is provided; or

___ No LBP Clearance Test is required.

___ No subcontractors will be utilized; or

___ A list of subcontractors will be provided by the Contractor.

Owner:_____Co-Owner:_____

Contractor:_____RD Representative_____

_____

CHAPTER 13: SERVICING AND LIQUIDATION FUNCTIONS

13.1 INTRODUCTION

This chapter provides guidance about the role of Field Staff in servicing loans that are under the jurisdiction of the National Financial and Accounting Operations Center (NFAOC) and the liquidation process after a loan has been accelerated. Servicing is mostly the role of NFAOC; however, Field Staff participation is important to maintain quality customer service and to protect the Government's interest.

Whenever local assistance is needed to support a NFAOC servicing action, NFAOC will request Field Staff support through the MortgageServ work queue or via phone. These requests will provide direction about the work to be accomplished. Appendix 13 contains a Field Office Reference Guide with helpful information on working effectively with NFAOC.

Several servicing functions have been permanently assigned to Field Staff. These include certain borrower actions requiring approval, assessing the borrower's ability to refinance with private credit, managing Real Estate Owned (REO) and custodial property, the disposition of REO property, and providing satisfactions when loans are paid off. Borrower actions requiring approval and loan satisfactions are discussed in this chapter. The remaining functions are described in detail in the chapters that follow.

Section 1 of this chapter describes servicing actions in which NFAOC may request assistance from Field Staff. This servicing action is the responsibility at NFAOC; however, assistance may be needed from the Field so that NFAOC can adequately service the loan. Section 2 deals with servicing actions which are the responsibility of Field Staff with Field Staff making the final decision. Section 3 involves liquidation responsibilities after NFAOC accelerates a loan.

13.2 TRANSITION TO NFAOC

New borrowers know the Agency only through the Field Staff they have dealt with directly during the loan approval process. After loan closing, those borrowers must make the transition to dealing with NFAOC. Field Staff can help borrowers with this transition by discussing the post-closing role of NFAOC with the applicant throughout the origination process, and emphasizing, during the applicant orientation, the importance of dealing directly with NFAOC. Once the loan is closed, NFAOC will contact the borrower in writing before the first billing statement to explain its role as servicer.

SECTION 1: WORKING WITH NFAOC

13.3 REGULAR SERVICING

A. Newly-Activated Borrower Account

When NFAOC receives a new borrower's loan docket, it will be reviewed to ensure that the documents are correct, and that the information contained in the legal documents matches the information that has been entered into MortgageServ. This will provide a check on the accuracy of all data entry, as well as offering an opportunity to identify and correct clerical errors that could otherwise result in unauthorized assistance. When NFAOC encounters apparent discrepancies, Field Staff may be asked to assist in correcting problems.

B. Payments

Field Staff should help borrowers understand the importance of dealing directly with NFAOC, while still providing appropriate levels of assistance. If a borrower brings a payment to the Field Office, Field Staff should remind the borrower that payments must be sent to the lockbox. Field Staff can forward a payment to the lockbox on the borrower's behalf; however, the borrower should be advised that bringing the payment to the Field Office will only delay arrival at the correct destination, and the borrower will be more likely to incur a late fee than if the payment is sent directly. Late fees are set at 4 percent of the borrower's scheduled payment for principal and interest, and are assessed if the scheduled payment is more than 15 days past due.

Fees on payments accepted by the Field Office will be recorded on Form RD 1951-49, "Register of Collections," and will be safeguarded in accordance with RD Instruction 1951-B and Form RD 1951-44, "Management Control and Review of Field Office Collection Activities, and related Forms Manual Insert.

C. Approval Actions

NFAOC must approve a variety of actions borrowers may wish to take during the course of their loans, including leasing mineral rights, obtaining a partial release of security, transferring title to someone who will assume the indebtedness, and obtaining Agency consent to temporarily not occupy the property or subordinate the Agency loan. In some circumstances, these actions may require on-site expertise.

If the borrower requests a partial release of security or authorization to lease mineral rights, Field Staff may be asked to examine the site to determine whether the proposed action will have an adverse effect on the security property. A local perspective may be particularly useful, for example, if Field Staff are familiar with nearby properties that have experienced similar mineral activity.

NFAOC is responsible for most subordination requests and may request assistance from the Field Office. The Field Office may approve a subordination in the case of a borrower who is obtaining private credit for repairs to the security property, and the lender requires a prior lien.

In accordance with RD Instruction 1970-A, 1970.8 (e), "servicing actions are directly related to financial assistance already provided, do not require separate NEPA review, and are not actions for the purposes of this part".

D. Appraisals

Field Staff may be asked to conduct appraisals for NFAOC. In these cases, Field Staff also are responsible for conducting administrative and technical reviews of these appraisals. Section 5 of Chapter 5 provides detailed guidance on conducting appraisals. All appraisals done as part of a servicing action must include the appropriate level of due diligence, which includes completing Attachment 5-B.

E. Insurance Claims

Borrowers with insurance claims must contact NFAOC to establish a plan to repair or rehabilitate the security property. If the insurance claim proceeds will not be used to redevelop the security property, the amount received must be applied to the account. The responsibilities placed upon the Field Staff and the NFAOC in the administering of an insurance claim fall within one of the following three categories, which consider the amount of the insurance claim, the repair or rehab cost and the risk to the government:

- **Total claim of $7,500 or less and the borrower's account is current:** Field Staff endorses the check to the borrower after reviewing the adjuster's worksheet.

- **Total claim exceeding $7,500 but less than $30,000 or claims of $7,500 or less and the borrower's account is not current:** Field Staff forwards insurance proceeds to NFAOC's insurance escrow, and inspects the work as requested by NFAOC. Field Staff should contact the Field Assistance Desk at 314-457-5200 for further guidance.

- **Total claim of more than $30,000:** Field Staff establishes a supervised bank account or forwards insurance proceeds to NFAOC's escrow. The Field Staff also manages all steps of construction planning and performance in the same manner they would development funded by loan proceeds following the standards contained in RD Instruction 1924-A. Work is inspected prior to any disbursements.

For construction contracts exceeding $10,000, Department of Labor requirements also apply.

1. Administering Insurance Proceeds

In cases where the amount of the insurance loss claim check is $7,500 or less and the account is current, Field Offices are authorized to endorse insurance claim checks without recourse provided the borrower provides a copy of the adjuster's worksheet and documentation that repairs will be made or has been completed. If the borrower does not have this documentation, the Field Office will contact the Field Assistance Desk at 1-314-457-5200 for further guidance. Field Offices should first review the adjuster's worksheet to ensure that the check is the total claim disbursement.

When Field Offices have endorsed an insurance check for $7,500 or less, they will cue NFAOC utilizing Task 285 and provide the claim check amount and date of the loss. If a borrower notifies a Field Office of an uninsured loss, the Field Office will cue NFAOC utilizing Task 285 and provide the estimated amount of damage to the property and the date of loss. NFAOC may force place insurance and submit a claim to the carrier. NFAOC will cue the Field Office if further actions are needed at the Field Office level.

For significant rehabilitation (a total claim of more than $30,000) all development will be completed under the supervision of the local Field Office. The insurance proceeds may be provided to the Field Office to establish a supervised bank account or retained for disbursement at NFAOC. Development will be managed by the Field Office in a like manner as development funded by loan proceeds. This should include Form RD 1924-2, Description of Materials, and Form RD 1924-25, Plan Certification, or a building permit issued by the local jurisdiction. All repairs and replacements will be planned, performed, inspected, and paid for in accordance with RD Instruction 1924-A. Payment schedules will be established in the individual repair plan.

Written contracts, using Form RD 1924-6, Construction Contract, are strongly recommended for all rehabilitation-related construction, and are required if there is construction involved that would affect the dwelling's structural integrity. Otherwise, Form RD-1924-1, Development Plan, or similar form, with cost estimates and specifications, may be used. Unless the borrower method is used, funds will not be advanced for materials or other purposes until work is completed.

2. Inspecting Repairs and Authorizing Payments

As noted above, all repairs and replacements will be planned, performed, inspected, and paid for in accordance with RD Instruction 1924-A. Section 6 of Chapter 5 further provides guidance regarding how inspections should be conducted and documented. Payment schedules will be established in the individual repair plan and the construction contract (if applicable).

When the insurance loss claim is under the purview of NFAOC, Field Offices will be asked to inspect the repair work and complete Form RD 1924-12, Inspection Report. Before each inspection related to a progress payment, Field Staff should request a check from NFAOC. The check should be made payable to the borrower and the contractor. If work has been satisfactorily completed, Field Staff will instruct the borrower to endorse the check and give it to the contractor. If the inspection reveals that the work was not completed satisfactorily, Field Staff will void the check and return it to NFAOC. After each periodic inspection, Field Staff will send the inspection report to NFAOC and maintain a copy in the borrower's case file. Field Staff will follow up on the adjustment of all losses until satisfactory settlement has been made.

When all work has been satisfactorily completed, Field Staff will release the final check to the borrower and submit to NFAOC all documents required in RD Instruction 1924-A, including: a final Form RD 1924-12, Inspection Report; Form RD 1924-9, Certificate of Contractor's Release; Form RD 1924-10, Release By Claimants; and Form RD 1924-19, Builder's Warranty.

Exhibit 13-1

Administration of Insurance Proceeds when Redevelopment Work is to be Performed

Total Claims	Account Status	Rehab Components	Insurance Claims Administration Procedure
$7,500 or less	Current	Not considered	Field Staff endorses check to borrower after reviewing the adjuster's worksheet.
$7,500 or less	Not current	Not considered	Field Staff forwards insurance proceeds to NFAOC's insurance escrow, and inspects the work as requested by NFAOC.
More than $7,500 but less than $30,000	All accounts regardless of status	Single component	
More than $7,500 but less than $30,000	All accounts regardless of status	More than one component	Field Staff establishes a supervised bank account or forwards insurance proceeds to NFAOC's escrow, and manages all steps of construction planning and performance in a like manner as development funded by loan proceeds. Work is inspected work prior to any disbursements.
More than $30,000	All accounts regardless of status	All rehab work	

F. Reamortizations and Other Documents Requiring Borrower Signature

Certain servicing actions may require that a borrower sign a loan document which is imperative to continue servicing the loan. Most times, NFAOC will mail such documents to the borrower. In some cases, especially when the document will remain in the Field Office, executing the document locally makes better sense. In these cases, NFAOC will advise the borrower to call and make an appointment with the local Field Office to sign the documents. NFAOC will also notify the Field Office and will provide specific instructions on what actions must be taken. For example, when a loan is reamortized, the borrower must execute Form RD 3550-18, Reamortization Agreement. NFAOC will prepare the form and contact both the borrower and Field Office with instructions on executing this form. Since the form modifies some terms of the promissory note, upon execution, the Field Office would file Form RD 3550-18 with the borrower's original promissory note, provide a copy to the borrower, and notify NFAOC that the borrower has executed the document.

For reamortizations, the Field Office will type the following statement below the signatures on the original note or assumption agreement:

"A Reamortization Agreement dated_____in the principal sum of $ _____ has been given to modify the payment schedule of this note."

G. Payoffs

Generally, a request for a loan payoff balance is made directly to NFAOC. In certain cases, Field or State Offices may need to obtain a payoff statement on a borrower's account. When needed, Field /State Offices should submit Attachment 13-A, Request for Payoff Statement, to the Payoff Unit at NFAOC. If the payoff statement is to be used for internal purposes only, the documentation for determining market value, capital improvements, and closing costs should be maintained in the Field State Office. If the payoff statement is to be provided to a third party, all documentation should be faxed to NFAOC along with the attachment.

Attachment 13-A along with supporting documentation must be reviewed by a person other than the Rural Development employee making the request. The reviewer should be the first line supervisor, or designee, of the Rural Development employee making the request. The name and initials of the person making the request and the reviewer must be on the attachment.

H. Final Payments and Satisfactions

When a borrower makes a final payment, NFAOC will notify the Field Office. Since the methods and forms for releasing security instruments vary by State, the Field Office is responsible for preparing the necessary satisfaction or other release documents. When the account is fully satisfied, including any subsidy recapture, the Field Office will submit these documents to the borrower, along with the satisfied note and mortgage, unless requested to submit them to another lender or closing agent, as appropriate. In States where the security instruments are not released when the borrower refinances their debt, but are assigned to the new lender, Field Staff may execute the necessary documents to authorize the assignment. The borrower's case file must be retained for 1 full fiscal year after the account is satisfied.

In cases where the account is not fully satisfied, such as in the case of a borrower who has elected to defer the repayment of recapture, the security instruments are not released. In these cases, NFAOC may advise the Field Office to prepare a subordination of the security instruments. Field Offices need to follow NFAOC instructions carefully to ensure that the correct documents are executed when releasing any security. Satisfaction documents are never sent to a borrower who has deferred payment of recapture until the recapture amount is paid in full.

I. Recapture Receivable Accounts

Delinquent tax notices/pending tax sale notices from taxing authorities on recapture receivable accounts should be forwarded to the Tax Unit at the NFAOC for handling. The notices can be faxed to (314) 457-4535. Upon receipt of a notice of pending tax sale, the NFAOC will review the recapture receivable account to determine if it is in the best interest of the Agency to pay the taxes to avoid the tax sale and protect the Government's interest in the property. The NFAOC may request assistance from the Field Staff when making this decision. A visit to the property may be necessary to determine the condition of the property and an estimated market value. If the taxes are paid the NFAOC will demand payment from the borrower. If payment is not made a foreclosure action will pursue.

13.4 SPECIAL SERVICING ACTIONS

A. Borrower Counseling

If a borrower notifies Field Staff that there may be a problem with loan repayment, Field Staff must not offer special servicing options or counsel the borrower about specific alternatives. Instead, Field Staff should help the borrower place a call to NFAOC to obtain this type of assistance.

It is important for Field Staff to understand the servicing tools available to NFAOC in order to be able to refer borrowers most effectively. However, it is the responsibility of NFAOC to provide specific information and counseling to borrowers. Field Staff must use extreme caution in providing information to borrowers, since detailed information about changes in servicing procedures will be disseminated primarily at NFAOC.

The Rural Development portion of a leveraged/participation loan is eligible for the same servicing actions as Section 502 and 504 loans. However, servicing strategies may be different because of the Agency's lien position and the need to coordinate servicing actions with the leveraged/participation lender.

NFAOC has the primary responsibility of servicing these accounts. On occasion, it may be necessary to request the Field Office to provide information on the leveraged/participation lender that is otherwise not available. Likewise, if the leveraged/participation lender contacts the Field Office regarding a specific account, they may wish to refer the lender to NFAOC for assistance.

B. Protective Advances

When NFAOC is contemplating a protective advance for physical repairs based on a borrower's report that the property is in need of repairs, Field Staff may be asked to visit the property to determine whether the repair is actually needed, and whether the condition of the property warrants additional investment. NFAOC also may request that Field Staff conduct inspections of work completed with a protective advance.

Field Staff who notice significant damage or deterioration in a property that secures an Agency loan should report that information to NFAOC. NFAOC can then contact the borrower to discuss the condition of the property, and determine whether additional action is warranted. Potential contamination from hazardous substances, hazardous wastes, or petroleum products should be reported promptly to the State Environmental Coordinator for further evaluation and guidance.

C. Refinancing

Borrowers who have nonprogram loans, above-moderate loans, or loans originated before August 1968, even if they have been assumed, are not eligible for payment subsidy. If a borrower with one of these types of loans experiences difficulty, is in danger of losing the home, and it appears that the borrower would otherwise qualify for payment subsidy, Field Staff may be asked by NFAOC to consider refinancing the loan.

D. Subsequent Loans

Originating subsequent loans is always the responsibility of Field Staff. However, there may be times when NFAOC becomes aware the borrower may need a subsequent loan and will refer the borrower to the Field Office.

E. Bankruptcies

If a borrower's bankruptcy petition is received in the Field Office, it should be forwarded immediately to NFAOC.

F. Missing Borrowers

When NFAOC is unable to locate a borrower, Field Staff may be asked to use local connections in an effort to find them. This might include checking with neighbors or friends, contacting local utilities, or checking with area schools. If the borrower cannot be located, Field Staff may be asked to take custody of the property to protect the Government's interest. Procedures for managing custodial property are described in Chapter 15.

G. Payment Subsidy Renewals

Payment subsidy renewals are the responsibility of NFAOC. On occasion, it may be necessary to request that the Field Office make a personal contact with the borrower to assist with the payment subsidy renewal process. Personal contact by the field is necessary when NFAOC has not received required documentation from the borrower to renew the payment subsidy and NFAOC has been unable to make a personal contact. A personal contact is made when verbal communication is made with the borrower either by phone or through a face-to-face meeting or through written communication from the borrower.

NFAOC sends a renewal request to the borrower 90 days prior to the expiration date of the subsidy agreement. When the borrower fails to send the necessary paperwork to renew the subsidy, NFAOC attempts to contact the borrower by phone and mail. Approximately 45 days prior to the expiration of the current subsidy agreement, if NFAOC is unsuccessful in obtaining the required documentation, the Field Office will be requested through Task # 526 to contact the borrower. This task must be completed within 30 days. When this task is received, the Field Office will make a personal contact with the borrower, or determine that a personal contact is not necessary.

Within 30 days of receipt, the Field Office will close Task # 526 and clearly document the contact or reason why contact is not necessary through Task # 115 entering the “message” in the task or by using “GLOBAL NOTES.”

If the Field Office determines the borrower is not eligible for subsidy or no longer desires subsidy, close Task # 526 and clearly document in “GLOBAL NOTES” why the borrower does not want or qualify for payment subsidy. A personal contact is also not required if the property is abandoned. If the property is abandoned, close Task # 526 and respond to NFAOC with Task # 100.

A monthly report which provides information on Field Office tasks that were not completed is available in Hyperion. State Directors will be responsible for monitoring incomplete tasks within their state jurisdiction.

H. Preacceleration Personal Contact

To ensure that a personal contact has been made with a borrower prior to an acceleration, the Field Office may be requested to personally contact the borrower. Exhibit 13-2 provides an overview of the Personal Service Review process. The Field Office will be requested to contact the borrower when NFAOC has been unable to make a personal contact with the borrower within the last 60 days and all required servicing letters have been sent, attempted phone contacts have been made, and monthly billing statements have been mailed to the borrower. A personal contact is made when verbal communication is reached with the borrower either by phone or through a face-to-face meeting or through written communication from the borrower. Field offices may be able to obtain financial information which can be used to recommend actions to NFAOC such as reamortization, moratorium, debt settlement or acceleration.

Exhibit 13-2

Personal Service Review Process

Account Review

- ☐ Review for correct delinquency status and that all monies have been applied.
- ☐ Ensure that payment subsidy has been offered and that there are no outstanding documents.
- ☐ Ensure moratorium processing is not outstanding.
- ☐ Ensure a reamortization is not in process.
- ☐ Ensure NFAOC has no open research tasks.

Contact Review

- ☐ Determine if NFAOC has spoken to the customer since the account was 60 days past due and three attempts have been made within the last 60 days.

Resolution

- ☐ A task or callback is requested to ensure the servicing needs of the customer have been met. If the NFAOC cannot contact the customer, a task is opened to the Field to make a personal attempt.
- ☐ A Personal Contact will be made by NFAOC or the Field Office prior to referral for foreclosure.

In cases where NFAOC's attempts to make a personal contact have been unsuccessful, the Field Office will be requested to contact the borrower using Task # 8. Field Offices will have 30 days to complete the task. When Task # 8 is received, the Field Office must review the "DEL/LOAN/HISTORY" and "DIS/HISTORY" screens before contacting the borrower. Once the screen is displayed, tab to the "DSP" field and type the word "ALL." This will provide information on all letters, calls, and notes. Prior to closing the task all contacts and attempts must be documented in "GLOBAL NOTES." If it appears that additional servicing options are needed, the "Account Issue and Suggested Resolution Sheet" shown as Attachment 13-B will be used to notify NFAOC that servicing assistance is needed.

If the Field Office has attempted contacts (either by phone or mail) and left a message through a door hangar or a business card, NFAOC will be notified using Task # 18 which will allow the borrower 15 days to make a call back to the Field Office or NFAOC. If after 15 days no attempt is made by the borrower to contact the Field Office or NFAOC, and the defaults have not been cured, NFAOC will direct the account to the acceleration unit.

If after reviewing the account the Field Office believes that personal contact is not necessary and the account should be accelerated, NFAOC will be tasked using Task # 17 to indicate the account has been reviewed and "Acceleration is necessary" and document why acceleration of the account is necessary and a personal contact is not necessary by entering the "message" in the task or by using "GLOBAL NOTES." An example of when personal contact is not necessary is when the security property has been abandoned. In abandonment cases the field will notify NFAOC using Task # 100.

A monthly report will be provided to State Directors showing the number of tasks not completed. State Directors will be responsible for monitoring incomplete tasks within their state jurisdiction.

13.5 VOLUNTARY SALE

Sale of security property is generally the most desirable option for both the Agency and a borrower who is unable to continue the loan. For the Agency, a sale to another party avoids the potential costs of liquidation, as well as costs related to owning and disposing of a property. For the borrower, it offers the best opportunity for being released from the debt without a major credit history blemish. A borrower may sell a property to a third party even after the account is accelerated. Field Offices may become aware of a borrower who desires to sell their property through notification from NFAOC or directly from the borrower. If the initial contact was not made through NFAOC, the Field Office should notify NFAOC of the proposed sale. If it appears that the sale of the property may not pay the debt in full, the Field Office should provide the borrower with a Debt Settlement Packet.

If a borrower proposes to sell the property for an amount which may be insufficient to pay the Agency debt, prior liens, and authorized selling expenses, the Agency may consent to the sale when it is determined to be in the best interests of the Agency. For states included in the REO/foreclosure centralization, NFAOC may consent to the sale. In non-centralized states, the Field Office may consent to the sale. The Agency may also advance authorized selling expenses to facilitate the sale. To determine if the proposed sale is in the Agency's best interest, a copy of the sales contract, appraisal, and sales expenses are needed. Another lender's appraisal may be used if it meets Agency appraisal guidelines.

Whether the short sale request is approved for less than the debt or if the request is denied, the approving official should provide their decision in writing to the homeowner. Handbook Letter 20 provides sample language for letters that may be used.

Authorized Selling Expenses

Authorized selling expenses are those which a seller customarily and legally pays to convey title and includes such items as a typical real estate commission, up to three points to enable the buyer to secure credit (but not to reduce the interest rate), real estate taxes, junior liens, deed preparation, abstract and title fees, termite and related inspections, title insurance, surveys, and deed and revenue stamps.

At a minimum, the approval letter should include the approved sale price, amount of net proceeds due to the Agency and a Debt Settlement Package with instructions to return the completed package to the National Financial and Accounting Operations Center. The homeowner is to be made fully aware that while the Agency is agreeing to release the lien they are still responsible for any remaining debt, which can be settled through the debt settlement process.

The denial letter should state, at a minimum, that the Agency has reviewed the request for consent to sell the property for the proposed sale price and provide specific reasons why the Agency does not consent to the sale. The Field Office should be listed as the contact.

In cases where a junior lien exists, the State Director may approve settlement of a junior lien to effect sale of the property when it is determined to be in the Agency's best interest. Field Staff will negotiate the lowest cost to have the junior lien released from the security property, bearing in mind the Agency only seeks to have the lien released (and not necessarily satisfied). The junior lienholder may still seek recovery from the debtor, if permitted by State law.

The Agency's objective is to minimize any potential loss to the Government and to the borrower. The Agency may consent to a sale for as low as the market value of the property, minus the prior liens and authorized sales expenses. When the proposed sales price is less than the market value, a net recovery valuation is required. Either action is handled in the Field Office and the final decision to concur with the proposed sale lies with a Loan Approval Official.

Example - Sale for Less Than Debt

A borrower's debt is $30,000, the sales price of the property is $28,000, authorized sales expenses are $3,000, and the market value is $28,000. In this case, the Loan Approval Official may consent to the proposed sale since it will net the Agency $25,000 ($28,000 minus $3,000 in authorized selling expenses). If the proposed sales price was less than the market value ($28,000), a net recovery valuation would be required.

When sales proceeds will not fully satisfy the debt, NFAOC will make the determination of whether the borrower will be released from personal liability. This determination is based upon a Debt Settlement Package completed by the borrower and forwarded to NFAOC for review and approval. A completed Debt Settlement Package is required to be submitted at or before loan closing for all sales for less than the debt, and sales proceeds must be submitted by certified or cashier's check. In cases where the borrower is not able or willing to complete the Debt Settlement Package, the Field Office may still release the mortgage when it is determined to be in the best interest of the Agency. This generally occurs when the borrower has moved out of the area or failure to close the loan will result in liquidation and the Agency receiving less than the anticipated net recovery value. The Debt Settlement Package, if available, and proceeds from the sale will be transmitted to the Cash Section of the Loan Administration Branch in NFAOC. Form RD 3550-17, Funds Transmittal Report, with the final payment coded "00" will be used to transmit the loan proceeds.

The Field Office will enter in GLOBAL/NOTES the date of the sale or assumption, purchase price, outstanding vouchers, and the date funds were submitted to NFAOC. On accounts which were accelerated, the Field Office will also update the FCL/INFO screens with third party information. When proceeds have been posted or the assumption processed, NFAOC will notify the Field Office of such action through Task #86, "Approved short sale, release mortgage/deed only," and will provide further guidance on release of the promissory note or debt settlement action, as appropriate.

Debt Settlement

A Debt Settlement Package consists of:

- Form RD 3550-20, Application for Settlement of Indebtedness
- Form RD 3550-21, Payment Subsidy Renewal Certification
- Copies of last two months bank statements for all accounts
- Verification of Income (last 2 pay stubs, benefit letter, etc.)
- Copy of most recent Federal Income Tax Return
- Copy of Net Recovery Worksheet, if applicable
- Estimated selling expenses
- Any other relevant information

A Debt Settlement Package can be requested from NFAOC by utilizing Task 569 or assembled in the Field Office. For emergency releases on debt settlement cases, the above information may be faxed to the Special Assistance Section, ATTN: QR Debt Settlement, in NFAOC at (314) 457-4451 or (314) 457-4551. Please ensure the borrower's telephone number is provided. Non emergency cases should be sent to the aforementioned section in NFAOC.

13.6 DEBT SETTLEMENT

Debt settlement procedures are implemented when there are debts owed the Agency, including balances remaining on an account after liquidation, debt remaining after a sale, subsidy recapture receivable or grant repayment amounts due, or unauthorized assistance due. Debt settlement begins when

the security has been disposed of. An account may be debt settled through compromise, adjustment, chargeoff, or cancellation.

NFAOC handles debt settlement, but Field Staff may be asked to assist in efforts such as locating missing borrowers or joint debtors, or checking local records to identify a debtor's assets. NFAOC will generally send the satisfaction to the Field Office with instructions to return the satisfaction and satisfied note to the debtor.

13.7 ADDITIONAL INPUT

Even when NFAOC has the primary responsibility for servicing, Field Staff have an obligation to report information that comes to their attention indicating risks to the security property or changes in borrower circumstances. Such items might include knowledge of hazardous dwelling conditions, environmental hazards, nonoccupancy, abandonment, or changes in income. Field Staff who learn of borrower difficulties also may recommend that the borrower contact NFAOC for assistance.

Using Personal Knowledge

Field Staff must consistently report information that comes to their attention if it is relevant to Agency loans or security properties to ensure that all borrowers are treated equally.

SECTION 2: BORROWER ACTIONS REQUIRING APPROVAL
[7 CFR 3550.159]

13.8 OVERVIEW

A borrower must obtain approval from the Agency before taking actions that may affect the security value of the property. Since these actions involve security property, they are handled in Field Offices. Key actions that require approval from the Agency include subordination, lease of mineral rights, partial release of security, lease of security property, and assumption of indebtedness.

When NFAOC becomes aware of borrower actions requiring approval, they will cue the local Field Office and provide any necessary information to facilitate processing of the borrower's request. Field Offices will approve or disapprove the actions outlined in this section and will cue NFAOC with the outcome.

This section first covers general guidelines and procedures for evaluating a borrower's request for approval of an action, with the exception of assumptions of indebtedness. Specific guidelines for each of the actions, including assumptions, follow the discussion of general guidelines.

13.9 GENERAL GUIDELINES

A. Reviewing Requests

To request approval for subordination, mineral leases, partial release of security, and lease of security property, a borrower must submit Form RD 465-1, Application for Partial Release, Subordination, or Consent. If the information provided is not sufficient to allow for a thorough evaluation, the Field Office must request additional information from the borrower.

B. Obtaining an Appraisal and an Environmental Review

An appraisal is required for the Agency to subordinate its interests or to approve a partial release of security if the amount of consideration exceeds $5,000. The borrower must pay for the appraisal, although the cost for an appraisal can be charged to the borrower's account.

An existing appraisal may be used if it is less than 1 year old and appears to reflect market value. An Agency appraisal is not required if a lender is involved and can provide an appraisal that adequately reflects market value.

Actions requiring Agency approval of mineral leases are subject to the environmental requirements of RD Instruction 1970 series "Environmental" prior to approval.

C. Evaluating and Approving the Request

Once the information needed to evaluate the request has been submitted, the Field Office must analyze the effect of the proposed action on the security property and document the conclusions on Form RD 465-1. Some factors to consider in the analysis include:

- The market value of the property before and after the transaction;
- The physical effects of the action on the security property; and
- The assignment of initial and subsequent payment proceeds.

If the analysis indicates that the Agency's security will not be put at risk by the action, an approval official may sign Form RD 465-1. The Office of the General Counsel (OGC) or the State Office may need to provide relevant forms needed to complete the approval. Signed copies of Form RD 465-1 should be distributed to NFAOC, the borrower, and the lender, as appropriate. The original should be maintained in the borrower's case file at the Field Office.

D. Using Proceeds

Proceeds that arise from the sale of a portion of the security, granting an easement or right-of-way, damage compensation, and all similar transactions should be used in the following order.

- To pay customary and reasonable costs related to the transaction that must be paid by the borrower, such as:
  - ◊ Real estate taxes that must be paid to conclude the transaction;
  - ◊ Cost of title examination, survey, abstract, and reasonable attorney's fees; and
  - ◊ Costs necessary to determine a reasonable price, such as appraisal of minerals, when the necessary appraisal cannot be obtained without costs.
- To be applied on a prior lien debt, if any.

- To be applied to the Agency indebtedness or used for improvements to the security property in keeping with the purposes and limitations applicable for the use of Agency loan funds. Proposed development will be planned and performed in accordance with RD Instruction 1924-A and supervised to ensure that the proceeds are used as planned.

The use of proceeds should be reflected on Form RD 465-1 and agreed to by the borrower and the Agency. Proceeds from the transaction to be applied to the Agency indebtedness will be remitted to the Cash Management Branch in NFAOC using Form RD 3550-17, Funds Transmittal Report, with Reason Code "00," together with a brief statement as to the source of the proceeds, a copy of Form RD 465-1, and any related documentation. The Field Office will also notify NFAOC using Task 178, "Legal Description Correction."

13.10 SUBORDINATION [7 CFR 3550.159(b)]

Subordinations are generally handled by NFAOC. The Field Office may approve a subordination of the Agency's security interests to allow a borrower to obtain a subsequent loan with private credit to make needed repairs or improvements to the property.

A. Criteria for Subordination

Requests for subordination can be approved if:

Nonprogram Borrowers

Subordination cannot be authorized for nonprogram loans.

- The other lender verifies that the funds will be used for Agency-eligible purposes;

- Based on repayment ratios, the prior lien debt will be on terms and conditions that the borrower can reasonably be expected to meet without jeopardizing repayment of the Agency indebtedness;

- Any proposed development will be planned and performed in accordance with Agency construction standards, as described in RD Instruction 1924-A or directed by the other lender in a manner that is consistent with that subpart; and

- The prior lien holder agrees in writing to provide at least 30 days prior written notice to the Agency before initiating any foreclosure action on the prior lien.

To document that the subordination conforms to the Agency's requirements, the borrower should ask the other lender to provide the Agency with a memorandum that states the purpose of the loan, along with its terms and conditions.

B. Amount of Subordination

The maximum amount of subordination is the market value of the security property minus the unpaid balance of all Agency loans (exclusive of recapture).

13.11 MINERAL LEASES [7 CFR 3550.159(a)]

Borrowers must obtain Agency authorization before leasing mineral rights on their security property. Such requests are rare, but do occur in situations such as a property in a town located above a coal mine or a property located on a water source. OGC should be involved in mineral lease decisions because State and local laws vary. In addition, an environmental review is required in accordance with RD Instruction 1970 series "Environmental", prior to approval. Subordination of an Agency loan to a mineral lease does not entitle the leaseholder to any proceeds from the sale of the security property. If the lease of mineral rights is approved, rental proceeds not assigned to the Agency are treated as income and any payment subsidy must be adjusted accordingly.

The Agency should consent to the lease of mineral rights and the subordination of its liens to the lessee's rights and interests in the mineral activity if the security property will remain suitable as a residence, and the Government's security interest will not be adversely affected.

To make this determination, the Agency must consider the effects of leasing on the security property including the potential for the lessee's rights of surface entry on the property. The Agency also must ensure that the property remains decent, safe, and sanitary and the value of the security property is not decreased below the amount of the loan.

- **No decrease in value.** If the proposal is not likely to decrease the value of the security property, the lease may be approved if the borrower agrees: (1) to use any damage compensation received from the lessee to repair damage to the site or dwelling; or (2) to assign it to the Agency to be applied to reduce principal.

- **Likely decrease in value**. If the proposed activity is likely to decrease the value of the security property, the Agency should consent to the lease of mineral rights only if: (1) the borrower assigns 100 percent of the lease income to the Agency to be applied to reduce principal; and (2) the rent to be paid is at least equal to the estimated decrease in market value.

When an assignment of income is required, the borrower must submit an assignment of income in a format that is designed to comply with State law and approved by OGC.

13.12 PARTIAL RELEASE OF SECURITY [7 CFR 3550.159(c)]

A borrower may request a partial release of security to accommodate a need to sell or exchange part of the property or grant a right-of-way across the security property. For example, the owner of an adjoining property may want to trade 10 feet of the side yard for 10 feet of the back yard, or the local government may wish to purchase land that borders a highway slated for widening.

The Agency may consent to transactions affecting the security and grant a partial release of security if the following conditions are met.

- The borrower will receive adequate compensation:

  ◊ The sale of any part of the security property must result in a payment equal to the value of the security being released or rights granted;

  ◊ The exchange of security property must result in another parcel of property acquired that has value equal to or greater than that being released; or

  ◊ The granting of an easement or right-of-way must result in benefits that are equal to or greater than the value of the security property being released.

- The security property, after the transaction is completed, must be adequate, decent, safe, and sanitary. For a program loan, the security after the transaction is completed must also remain modest.

- Repayment of the Agency debt must not be jeopardized.

To process a partial release, the Field Office must complete the following actions.

- Complete any required State release forms. The unrecorded documents will be uploaded to the imaging repository as "Loan Documents Class – Deeds of Trust Mortgages" as part of the borrower's permanent record. The party requesting a partial release is responsible for recording costs.

- For an **exchange** of all or a portion of the security property, obtain title clearance for the new security before the release of the existing security. Security instruments must be obtained for the new property.

- For a **sale** of all or a portion of the security property, deliver the release when full payment is received.

- Update the legal descriptions of the property, as necessary.

The Field Office may approve, after notifying NFAOC of the approval, the following releases:

- **Additional security.** At any time prior to payment of the loan in full, the Agency may authorize a release from the Agency's lien any real estate taken as additional security. This is authorized provided the market value of the remaining security is adequate to secure the loan balance. Additional security does not include any part of the tract purchased with Section 502 loan funds or part of the minimum adequate site on which the dwelling is located.

- **Mutual Mistake.** The Agency may authorize the release of property from the Agency's lien caused through mutual mistake when substantiated by facts and when the Agency can determine, with the advice of OGC, that a mutual error existed at the time the property was included in the security instrument.

- **No evidence of indebtedness.** The Agency's lien may be released in situations where there is no evidence of an existing secured indebtedness in the Field Office or in NFAOC. Before releasing the lien, the Field Office should consult with the Field Assistance Desk in NFAOC.

- **Valueless Lien.** In liquidation cases, if a net recovery valuation indicates the Agency's lien is valueless (that is, there is no or a negative potential recovery), the lien may be released. The Field Office should immediately contact the Field Assistance Desk in NFAOC. This is necessary to ensure that taxes and insurance are no longer paid by the Agency, and a debt settlement package is sent to the borrower by NFAOC.

13.13 LEASE OF SECURITY PROPERTY [7 CFR 3550.159(d)]

Program borrowers must notify the Agency if they lease the property. If the Agency becomes aware of a borrower who is leasing their property, the borrower is not eligible for payment subsidy or special servicing benefits during the period of the lease. Field Offices will notify NFAOC and provide any applicable documentation. If they become aware that a borrower has leased the security property, the Agency also should assess the borrower's ability to refinance with private credit. If the lease is for a term of more than 3 years or contains an option to purchase, the Agency may liquidate the loan. Nonprogram borrowers are free to lease their properties without restriction.

13.14 ASSUMPTION OF INDEBTEDNESS [7 CFR 3550.163]

A. New Rates and Terms Assumptions

In most cases, Agency indebtedness is only assumed as part of a sale. In these situations the debt is assumed on new rates and terms as part of loan origination and is addressed in other chapters of this Handbook. Field Offices are authorized to release the former borrower from personal liability for the amount of debt being assumed utilizing Form RD 3550-16, Release from Personal Liability. In cases where the debt is not being assumed in full, NFAOC will handle the settlement of the remaining debt and any release of liability for the portion of debt not being assumed.

B. Same Rates and Terms Assumptions

In certain limited cases, generally those involving transfers of title between family members, a standard industry assumption is permitted. It is known in the Section 502 program as a **same rates and terms assumption**. Under this type of assumption, the existing note and terms, including the interest rate and the remaining repayment period, do not change. Same rates and terms assumptions are handled and approved in the Field Office. However, a recorded deed is required prior to submitting the account to NFAOC for processing. If the account is past due at the time an assumption is executed, the new borrower will be referred to NFAOC to resolve the delinquency.

Same rates and terms assumptions are permitted for the following types of transfers:

- A transfer from the borrower to a spouse or children not resulting from the death of the borrower;
- A transfer to a relative, joint tenant, or tenant by the entirety resulting from the death of the borrower;
- A transfer to a spouse or ex-spouse resulting from a divorce decree, legal separation agreement, or property settlement agreement;
- A transfer to a person, other than a deceased borrower's spouse, who wishes to assume the loan for the benefit of persons who were dependent on the deceased borrower at the time of death, if the dwelling will be occupied by and or more persons who were dependent on the borrower at the time of death and there is a reasonable prospect of repayment;
- A transfer into an inter vivos trust in which the borrower does not transfer rights of occupancy in the property; and
- Any subsequent transfer of title, except upon death of the inheritor or between inheritors to consolidate title, will be treated as a sale.

C. Agency Approval

The due-on-sale clause contained in all Agency mortgages stipulates that the borrower must obtain approval from the Agency before the title of a security property can be transferred with an assumption of the indebtedness. Prior approval is not required for same rates and terms assumptions.

The Agency will approve a transfer of title and assumption of indebtedness if it is in the best interest of the Government. The new owner will be liable for the loan, and the terms and conditions of the assumption depend upon the eligibility of the new purchaser and the property's characteristics.

Unauthorized assistance will not be pursued when an individual who is eligible for a same rates and terms assumption has been occupying the security property, receiving subsidy based on their household income and executes a same rates and terms assumption. As these cases are identified, the NFAOC will notify the individuals occupying the security property in writing that unauthorized assistance will be pursued unless an assumption agreement is signed within 90 days.

A task will be sent to the Field Office informing them of the unauthorized assistance and a request to have the individuals execute a same rates and terms assumption. If the assumption is not executed within 90 days and the Field Office has not requested an extension to complete the processing of the assumption, collection of the unauthorized assistance will be pursued.

The new owner need not have a low or moderate income. However, payment subsidy can be continued for the new owner only if he or she is eligible for assistance and only at the level for which the new household qualifies. If the transferee is a very low- or low-income person, it may be more beneficial for the transferee to assume the loan under new rates and terms. For example, if current interest rates are lower or a longer repayment period is necessary, a new rates and terms assumption may be of benefit to the new owner. In those cases, if the new owner applies and is program-eligible, the loan will be assumed under new rates and terms. In cases where the assuming party has a moderate- or above moderate-income, the party will be informed of the Agency's refinancing requirements, and if applicable, the loan will be reviewed for refinancing.

In most cases, if the borrower sells a security property with a due-on-sale clause without obtaining prior authorization from the Agency, the assumption will not be approved and the loan may be liquidated. If the Agency determines it is in the best interest of the Government to continue the loan, the account will be serviced in the original borrower's name, and the original borrower will remain liable for the loan under the terms of the security instrument.

A new owner who obtains property through a transaction eligible for a same rates and terms assumption is not required to obtain Agency approval or assume the loan. The Agency is not permitted to liquidate the loan if the new owner continues to make scheduled payments and meets all other obligations of the loan. However, a new owner who does not assume the loan is not eligible for payment assistance or a moratorium.

D. Procedural Requirements

The new owner must sign Form RD 3550-22, Assumption Agreement - Single Family Housing. For assumptions, the original note is not returned to the seller. Instead, the note is filed with other original notes, with the original Form RD 3550-22 attached.

E. Releasing a Departing Borrower from Liability

Changes in household composition may trigger the need to adjust who is responsible for repayment of the loan. The need for a change most often occurs when one party to the note wishes to be released of liability. For example, after a divorce the departing spouse may wish to be relieved of responsibility for the balance of the mortgage. The Agency will authorize such a release only when:

- The divorce decree or property settlement document did not make the departing borrower responsible for loan payments;
- The departing borrower's interest in the security property is conveyed to the person with whom the loan will be continued; and
- The remaining borrower meets the maximum total debt ratio requirements and credit history requirements.

Form RD 3550-16 is used to release the departing borrower from liability. NFAOC generally handles these releases but may cue the Field Office for assistance.

The following items need to be submitted to apply for a release of liability:
1. A written request from the departing borrower to be released of liability;
2. New address and phone number of the departing borrower;
3. Divorce decree and property settlement, as applicable;
4. Prepared and/or filed quit claim deed;
5. Financial statement of remaining borrower;
6. Verification of Employment/Income for remaining borrower; and
7. Copy of latest Federal income tax return, including W2 form, for remaining borrower.

13.15 PROTECTIVE ADVANCES [7 CFR 3550.206]

The Agency may advance funds to pay for fees and services that are needed to protect the Government's interest in either program or nonprogram property. Protective advances are only considered when the Agency cannot provide a subsequent loan for such purpose to the borrower. This could occur because the borrower does not meet current eligibility standards, lack of funds, or unwillingness of the borrower to cooperate. The Agency recovers the amounts advanced by charging the borrower's account. Amounts advanced are due with the next scheduled payment. If the borrower is unable to repay the advance in a lump sum, the Field Office may request that NFAOC schedule repayment consistent with the borrower's ability to pay or reamortize the loan.

A. Advances for Property Repairs

Protective advances for property repairs are made only to protect the Government's interest in the security property and should be considered only if the repairs cannot be financed through a subsequent loan. Advances will bear interest at the promissory note rate of the loan against which they are charged. Advances for borrowers with multiple loans secured by the same property should be charged against the largest loan.

1. Determining the Need for Repairs

The need for repairs may be identified by the borrower, Field Office, or NFAOC. Field Offices are responsible for completing an inspection of the property, developing a description of the work required, preparing a cost estimate, and approving the protective advance.

2. Alternative Sources of Funding

Before processing the advance, the Field Office must first determine whether it appears that the borrower qualifies for a subsequent loan. If a subsequent loan appears feasible, a loan application will be processed immediately. If the need for a protective advance is so urgent, clearly apparent that the borrower would not qualify for a loan, is uncooperative, or that a protective advance is more appropriate, the Field Office must document why alternatives were not feasible and why the repairs are needed to protective the Government's interest when processing an advance. Protective advances will be reported to the IRS as income to the vendor and IRS Form 1099 will be generated. In no case will the borrower or a RD employee be listed as the vendor.

Review and Approval

The decision to use a protective advance for essential repairs must be reviewed and approved by the **Housing Program Director**.

B. Advances for Other Purposes

In order to protect the Government's interest, protective advances also may be used for other purposes. These types of advances will be processed and approved by Field Offices or NFAOC, as appropriate. Field Staff will coordinate efforts with NFAOC for any loan which is still under the jurisdiction of NFAOC. Protective advances for other purposes include such items as:

- Paying off a senior lien holder who intends to foreclose in cases where the Agency is a junior lien holder;
- Paying taxes or insurance premiums; or
- Paying for local assessments.

SECTION 3: LIQUIDATION

13.16 OVERVIEW

The decision to liquidate a loan is made at NFAOC. After acceleration and any ensuing appeals, the case is sent to the State Office for completion of the liquidation. Once legal proceedings have concluded, the property will be sold at a foreclosure sale. To complete the foreclosure process, the State Office must determine how much to bid and enter that bid at the sale. A net recovery valuation is required. **Estimated net recovery value** represents the amount that the Agency could expect to recover from a property if it was liquidated after considering all costs associated with liquidating, holding, and selling the property. Handbook-2-3550, Attachment 6-A contains a net recovery value worksheet to aid in this calculation. **Actual net recovery value** is the amount the Agency in fact does recover from the sale of a property, after accounting for all costs.

13.17 NET RECOVERY VALUE

A. Establishing Market Value

Calculation of Net Recovery Value

Market value
(less) Costs
(plus) Income
Net recovery value

The market value of the property is the fundamental basis for establishing the estimated net recovery value. All calculations undertaken on the net recovery value worksheet provide additions or deductions from market value. In no case will a "distressed sale" or similar reduced value be used, resulting in a "double discount" and less recovery for the Government. Costs of liquidation and ownership are considered as deductions from the market value in the net recovery value calculation. Conversely, likely major costs, such as lead-based paint assessment and abatement on an older home or other major repairs, must be included to accurately determine the Government's costs of ownership.

B. Environmental Considerations

The estimate of market value must take into consideration potential environmental hazards that may pose a liability issue for the Agency and the presence of environmental resources for which the Agency will have an affirmative responsibility to take protective measures once it owns the property. Exhibit 13-3 provides a partial list of environmental factors for consideration.

In order to minimize Agency liability, the Agency must ensure, **prior** to acquiring property through foreclosure, that the property has been examined for potential contamination from hazardous substances, hazardous wastes, and petroleum products, including underground

storage tanks. This should be accomplished by requesting that Field Staff complete Attachment 5-B. If the completed attachment raises any concerns it should be submitted to the State Environmental Coordinator for further evaluation and guidance.

The Agency also should examine the property prior to acquisition and consider any costs associated with environmental resources the Agency might be required to protect.

For additional information, refer to Chapter 16 and to RD Instruction 1970.

Exhibit 13-3	
Environmentally Sensitive Land Uses and Resources	**Extraordinary Circumstances**

• Historic properties
• Federally listed threatened or endangered species, critical habitat, Federally proposed or candidate species
• Wetlands
• Floodplains
	• Any violation of applicable Federal, state, or local statutory, regulatory, or permit requirements for environment, safety, and health.
	• Any proposal that is likely to cause uncontrolled or unpermitted releases of hazardous substances, pollutants, contaminants, or petroleum and natural gas products.
	• An adverse effect on the following environmental resources:
	  o Historic properties;
	  o Federally listed threatened or endangered species, critical habitat, Federally proposed or candidate species;
	  o Wetlands;
	  o Floodplains;
	  o Areas having formal Federal or state designations such as wilderness areas, parks, or wildlife refuges; wild and scenic rivers; or marine sanctuaries;
	  o Special sources of water (such as sole source aquifers, wellhead protection areas, and other water sources that are vital in a region);
	  o Coastal barrier resources or, unless exempt, coastal zone management areas; and
	  o Coral reefs.
	• The existence of controversy based on effects to the human environment brought to the Agency's attention by a Federal, tribal, state, or local government agency.

It is important to note that development on Tribal land or dependent Indian communities may require additional coordination with the Tribe to determine if the proposal has an effect on the human environment or an adverse impact on cultural resources and the Section 106 review. In accordance with RD Instruction 1970-H, Exhibit B "when an applicant's proposal is located on tribal lands, defined in 36 CFR § 800.16(x) as all lands within the exterior boundary of any Indian reservation and all dependent Indian communities, and that tribe has designated a Tribal Historic Preservation Officer (THPO) in accordance with Section 101(d)(2) of NHPA, the SHPO participates only under the conditions specified in 36 CFR § 800.2(c)(1)(ii). If the Indian tribe has not designated a THPO, then the SHPO participates in Section 106 review pursuant to 36 CFR § 800.2(c)(2)(i)(B)." Exhibit D of RD Instruction 1970-H provides guidance on working with Indian Tribes in the Section 106 review.

C. Ordering an Appraisal

Information about conducting appraisals is contained in Chapter 5. The point at which a formal appraisal is actually conducted will vary.

1. Valueless Lien

If the net recovery valuation suggests that the lien may be valueless, an appraisal should be obtained immediately. If the appraisal indicates that the lien is in fact valueless, it should be released without incurring servicing costs.

2. Deed in Lieu of Foreclosure

If, after acceleration, the borrower offers a deed in lieu of foreclosure, an appraisal should be obtained immediately so the Servicer can determine whether it is in the Government's interest to accept the deed.

3. Foreclosure

If the property will be going to foreclosure, no appraisal should be obtained until shortly before the sale is scheduled to take place. In areas where the foreclosure process can be lengthy, the value of the property could change before the sale if it is conducted too far in advance.

D. Holding Period

Nearly all costs and income used in the net recovery value calculation are affected by the holding period. For estimated net recovery value, the length of the holding period is estimated differently, depending on the likely method of disposition. The holding period should be estimated as the time between the date the net recovery worksheet is being filled out and the anticipated date for:

- Filing of the deed and the expiration of redemption rights (foreclosure);
- Filing the warranty deed (deed-in-lieu of foreclosure);
- Filing the release (release of valueless lien); or
- Payoff and release (debt settlement offer subsequent to acceleration).

The time for marketing and disposition, if acquired, should also be considered when estimating the holding period.

E. Deductions from Market Value

Costs associated with liquidation and ownership of the property must be considered when determining the net recovery value, including the following costs.

- **Prior liens to be paid by the Agency.** In a case where a prior lien is involved, the amount required to repay the prior lien holder must be included in the calculation.
- **Junior liens to be paid by the Agency.** If the Agency pursues foreclosure, junior liens are not paid. However, in the case of a deed in lieu of foreclosure, it may be to the Agency's advantage to pay off a junior lien holder. The Field Office should conduct a title search to identify the position and the amount of each lien against the property.
- **Selling expenses to be paid by the Agency.** All of the transaction costs involved in selling the property including advertising, commissions for selling agents, required seller certifications, surveys, points, and closing costs paid by the Agency, whether on behalf of the borrower in a voluntary liquidation, or as an Agency expense for an Real Estate Owned (REO) sale, must be included in the calculation.

- **Holding costs.** During the time that the Agency owns the property, the monthly interest accrued is multiplied by the number of months in the holding period.

- **Depreciation during the holding period.** The property may depreciate in value while it is being held by the Agency.

- **Administrative costs.** The administrative burden associated with holding a property includes the cost of liquidation, such as attorney, filing, recordation, advertising, and document service fees that are customarily incurred in a foreclosure action.

- **Management costs.** During the period the Agency holds the property it will accrue costs related to cleaning, securing, and maintaining the property such as utilities and real estate taxes. Management costs will also include any major repair costs not considered in the market value, such as lead-based paint (LBP) assessment and abatement, which the Government would be required to incur but not considered as a detriment to value by the typical buyer in establishing the market value. While an LBP assessment is not completed for the NRV calculation, a reasonable cost estimate may be included, based on age and condition of the property and known local costs to abate similar properties.

F. Additions to Market Value

Although most of the adjustments to market value involve deductions to reduce the recovery amount, there are a few factors that can increase the market value.

- **Appreciation during the holding period.** In markets that are strong, the property may appreciate while it is being held by the Agency.

- **Income during the holding period.** In general, the Agency does not lease properties. However, REO properties may be leased in limited circumstances, such as a property located in an area where keeping the property occupied could greatly reduce vandalism.

13.18 BASIC SECURITY LOSS

The basic security loss is the difference between the property's market value and the outstanding Agency debt on the property, including principal, subsidy subject to recapture, and other recoverable costs. Exhibit 13-4 provides the basic security loss formula.

Exhibit 13-4

Calculation of Basic Security Loss

Gross Investment

A. $_____Principal
B. $_____Subsidy Recapture
C. $_____Recoverable Costs

Market Value (use current appraisal)

Basic Security Loss

It is important for the Agency to consider the basic security loss in determining how to work with the borrower. For example, the debt settlement arrangements the Agency agrees to might be more lenient in the case of a borrower with a property that lost value through no fault of the borrower. More important, this information can be used for portfolio analysis to help the Agency originate loans more effectively in the future.

13.19 DEED IN LIEU OF FORECLOSURE

A deed in lieu of foreclosure is a method of liquidation by which title to the security property is conveyed to the Agency by the borrower. The Agency must not consider a borrower's offer to convey the title to the security property until after the account is accelerated, and then only when it is in the best interest of the Government based upon the estimated net recovery value. After an account has been accelerated, a deed in lieu of foreclosure is processed and approved by Field Offices. In exceptional cases where a borrower offers to convey title to the property at a Field Office when the account has not been accelerated, the Field Office will immediately contact NFAOC to determine an appropriate course of action.

To process a deed in lieu of foreclosure, Field Offices will obtain the following items from the borrower: (1) a warranty deed; (2) Form RD 1955-1, Offer to Convey Security; and (3) copies of any leases or other documents affecting the title to the property. The borrower should be informed that the deed will not be recorded unless the conveyance is accepted.

Generally, borrowers will be required to satisfy liens and real estate taxes or assessments before conveyance is accepted. However, if the borrower is unwilling to do so, the Agency may elect to satisfy or settle these debts if it is in the best interest of the Government.

A deed in lieu of foreclosure does not automatically release the borrower from liability for any outstanding debt. The borrower's account will be credited with the actual net recovery value. If the actual net recovery value does not satisfy the debt, the remaining debt must be debt settled by NFAOC.

The borrower should be reminded that under a deed in lieu of foreclosure:

- Foreclosure action will not be suspended while the offer for a deed in lieu of foreclosure is considered;
- All costs related to the conveyance paid by the Agency will be added to the debt;
- A credit equal to the actual net recovery value will be applied to the debt;
- If the borrower does not satisfy the debt, the borrower will not automatically be released from liability; and
- The borrower will be required to provide a title insurance policy or a final title opinion from an Agency-approved title company or attorney.

13.20 FORECLOSURE

State laws pertaining to acceleration and foreclosure will affect the procedures the Agency is required to follow. NFAOC will consult with OGC to ensure that appropriate procedures are followed.

A. Making the Acceleration Decision

NFAOC must decide whether to accelerate the account and begin the foreclosure process. The decision to accelerate involves numerous considerations, many of which will vary case-by-case. The following issues should always be considered.

1. OGC Concurrence

NFAOC obtains OGC concurrence before beginning the foreclosure process if:

- The foreclosure is based on a nonmonetary default;
- The borrower obtained the loan while a civilian and entered military service after the loan was closed; or

- The property also serves as security for a loan under another United States Department of Agriculture (USDA) Agency program such as the Farm Service Agency (FSA), since this may trigger liquidation of the other loan.

2. Role of Other Lien Holders

Depending upon the status of other liens on the security property, the Agency may invite other lien holders to join in the foreclosure action or join in a foreclosure action initiated by another lien holder.

When the Field Office becomes aware of a prior lienholder foreclosure, a determination must be made if it is advantageous to pay the prior lienholder in full before the foreclosure sale. When making this determination the Field Office must consider if the government will obtain a greater recovery on the secured debt than it could by bidding at the foreclosure sale based on the net recovery value and whether the agency wishes to continue with the borrower. If the decision is made to pay off the prior lienholder a title opinion must be obtained. Field Offices will note the account and fax a copy of the foreclosure notice to NFAOC, Direct Loss Mitigation Section at 314-457-4553. The Field Office will need to track the progress of the prior lienholder's foreclosure manually until the time of the sale. Once the foreclosure template is established, the Field Office is responsible for updating the tasks on the template, using the date provided by the lender. If a third party purchases the property at the sale, the proceeds are shown in the sale amount field. Attachment 13-D provides guidance for obtaining funds to pay off the lienholder.

When NFAOC becomes aware that a prior lienholder has initiated foreclosure action, the State and Field Office will be notified by fax and telephone call. When the Agency becomes aware of a prior lienholder foreclosure, a determination must be made whether the Form RD 1927-8, "Agreement with Prior Lienholder" or similar state form was executed in connection with a leveraged loan. When the Prior Lienholder Agreement was executed, and the lender failed to give notice, the Agency will consult with the Office of General Counsel to protect the Government's interest. The Agency will also consult with the Lender about compliance with the Prior Lienholder Agreement and Lenders who fail to comply with the prior notice requirements will be counseled. Lenders who are unable to comply with the prior notice requirements should not be considered for future leveraged packages.

Assignment of promissory notes and security instruments is authorized where a junior lienholder is foreclosing its lien and is paying the Agency in full.

Recapture will be calculated if the junior lienholder provides the necessary information.

B. Acceleration

1. The Acceleration Notice

If NFAOC determines that the appropriate approach to liquidation is foreclosure, the process begins with an acceleration notice**.** The acceleration notice demands full payment of the account including unpaid principal and interest, advances, and subsidy subject to recapture. It notifies the borrower of: (1) the reason for the acceleration; (2) the amount due; (3) the method of payment; (4) the opportunity for an informal discussion with the decision maker; and (5) the process for requesting an administrative appeal hearing. The notice gives the borrower 30 days to pay in full or request a hearing.

The notice must be sent to the borrower and any cosigners simultaneously by both regular mail and certified mail. If the property address is different from the address of the borrower, the notice should be sent to the property address as well.

2. Treatment of Payment Subsidy

If a borrower is receiving payment subsidy, the payment subsidy agreement will not be canceled when the debt is accelerated, but the agreement will not be renewed when it expires unless the account is reinstated.

3. Special Servicing

After a borrower's account has been accelerated, the borrower is no longer eligible for any of the special servicing actions described in Chapter 5.

4. Assignment of Security Instruments

Assignment of promissory notes and security instruments is authorized when an account has been accelerated, all appeals have been exhausted, the case has been accepted by OGC for foreclosure, and the Agency is being paid at least the net recovery value of the security property.

5. Offers to Pay

Field Offices will refer offers to cure the default to NFAOC. The borrower is permitted to cure the default and retain the loan under the following conditions:

- The Agency is required by state law to reinstate the loan; or
- The agency is required by a decision from National Appeals Division (NAD) to reinstate the loan; or
- At the sole discretion of the Agency, when it is in the Government's best financial interest.

For borrowers whose accounts have been accelerated 45 days or less, the cure amount will be quoted by NFAOC (unless the account is noted as a no cure account). The borrower will be instructed to send certified funds to the retail lockbox or use Western Union Quick Collect or Money Gram 45 days from acceleration.

Borrowers whose accounts have been accelerated more than 45 days will be referred by NFAOC to the appropriate State/Field Office. If appropriate, the State/Field Office will interact with the Office of the General Counsel/U.S. Attorney's office to determine if a cure can be accepted and document the recommendation in global notes. State/Field Offices may calculate the cure amount or if assistance is needed, contact NFAOC, Field Assistance Desk. All funds to cure an account must be certified or remitted using electronic funds (Western Union Quick Collect or Money Gram). The use of Customer Initiated Payments (CIP) or "check by phone" will not be used to cure an account, as these funds are not guaranteed.

When an offer is made to pay less than the full amount to cure the default, Attachment 13-C must be completed. The attachment, including concurrence by the State Director will be sent to the Deputy Administrator, NFAOC, for approval along with any supporting documentation. A request to reamortize the account must also be submitted at this time if the borrower is unable to pay the shortage within 30 days from acceptance of the offer. The request for approval of the offer should be submitted to NFAOC, Field Assistance Desk.

If approved, the State/Field Office will submit the certified funds agreed upon along with a payment assistance package (if payment assistance has expired). If the borrower can pay the shortage within 30 days and a reamortization is not necessary, this should be noted on the funds transmittal. The State/Field Office is responsible for ensuring the borrower pays the approved cure amount as agreed. If the account is reamortized, an escrow will be established, if not already in place.

When the State/Field Office determines it is not in the best interest of the Agency to accept a cure, Task #802 will be sent to NFAOC to have the account coded to prevent future cures. In mandatory cure states, offers to cure the default and associated charges will not be refused.

- Submission of Funds - For accounts accelerated more than 45 days, the State/Field Office will collect and forward the funds to the wholesale lockbox on a Form RD 3550-17, Funds Transmittal Report. The lockbox address is USDA/RHS, P.O. Box 790300, St. Louis, MO 63179. If the borrower wishes to cure the account using electronic funds (Western Union Quick Collect or Money Gram), the State/Field Office should make sure the account is thoroughly noted with the control number for tracking purposes.
- Payment Assistance - If the payment assistance has expired or the borrower's income has changed, at the time the borrower cures the account, the State/Field Office should assist the borrower in completing a new payment assistance package. The payment assistance certification with the supporting documentation should be forwarded with Form RD 3550-17 and the cure funds to the wholesale lockbox. If the account was cured via Western Union Quick Collect or Money Gram, the payment assistance information should be sent to the Field Assistance Desk with a cover letter explaining that the account was cured via electronic funds. The payment assistance agreement will be made effective with the first due date following the cure date, if a complete package is received within 30 days from the date of the cure.

  Funds submitted by a borrower to a Field Office should be sent to the lockbox on Form RD 3550-17, "Funds Transmittal Report."

C. Review of the Acceleration Decision

Several remedies are available to borrowers who believe their accounts should not have been accelerated. These include an informal administrative review at NFAOC, mediation or a formal appeal with the NAD. Paragraph 1.9 describes the appeal and review process in detail.

D. Initiating Legal Proceedings

Field Offices should continue the foreclosure process 30 days after the acceleration notice is sent if the borrower does not request an informal review or appeal the acceleration decision, or as soon as NAD upholds the Agency's decision to foreclose.

The Agency will only seek a deficiency judgment (in those States where available) when foreclosure is initiated and the Agency determines the borrower has or will have assets from which a deficiency judgment could be recovered. Deficiency judgments will never be sought in the following situations: (1) acceleration is due to an unpaid recapture amount; (2) the borrower was granted a moratorium at any time during the course of the loan and faithfully tried to meet the loan obligations; (3) State law does not permit a personal deficiency; (4) in nonjudicial foreclosure States, the United States Attorney will not accept a referral for the deficiency; or (5) the Agency has determined after consultation with OGC that it is not cost effective to seek a deficiency on a particular case.

If the security property is located on tribal allotted or trust land, liquidation may not proceed until after the State Director has offered, in writing, to transfer the account to an eligible tribal member, the tribe, or the Indian Housing Authority servicing the tribe or tribes. This offer is made after the account has been accelerated, the appeals process has been concluded and the case sent to the respective State Office.

E. The Foreclosure Sale

Once legal proceedings have concluded, the property will be sold at a foreclosure sale. To complete the foreclosure process, Field Offices must determine how much to bid and enter that bid at the sale.

1. Establishing a Bid Amount

The Agency's bid will be the lesser of the Agency's gross investment or the estimated net recovery value of the security property.

Gross investment is the sum of:

- **The unpaid balance,** defined as:
  - ◊ In states with judicial foreclosure, the judgment account established as a result of the foreclosure judgment.
  - ◊ In states with non-judicial foreclosure, the borrower's account balance reflecting secured loans and advances.
- **All outstanding advances and fees charged to the borrower's account.**
- **Total subsidy received.**

- **Bidding at the Foreclosure Sale**

Procedures for bidding at a sale will vary by locality and a local presence may be required. If the Agency is the high bidder, the property will become REO property, which will be managed and disposed of by the Field Office. In order to acquire the property through the MortgageServ System, send Task #229 to NFAOC noting the Agency was the successful bidder at the sale. NFAOC will then create the foreclosure template to allow the field to acquire the property. The Field Office will be responsible for updating the tasks on the template.

If the amount received through the foreclosure sale is less than the borrower's outstanding debt, NFAOC will handle the debt settlement procedures.

ATTACHMENT 13-A

REQUEST FOR PAYOFF STATEMENT
(This form to be used for Field/State Office functions only.)

Type of Payoff Statement

_____Statement of Loan Balance (includes total subsidy received)
_____Final Payoff w/recapture
____Sale ____Refinance ___Other _____
_____Other (explain) _____

Account Information

Account Number(s): _____
Borrower Name: _____
Property Address: _____
_____

Payoff Information

$_____Market Value/ (sales price, appraised value, or assessment)*
$_____Value of Capital Improvements*
$_____Closing Costs*
$_____Amount of Original Equity
_____ Percent of Original Equity
$_____Effective Date of Payoff

If payoff statement will be used for internal purposes only, documentation should be maintained in the Field/State Office. If payoff statement is to be provided to a third party, include documentation along with this request.

Foreclosure Accounts: unapplied/unprocessed vouchers to be added to the payoff quote.

Amount of Charge	Type of Charge
$_____	_____
$_____	_____
$_____	_____

[ ] Check here if additional fees have been confirmed through the State Office. If this box is checked, NFAOC will not send a Task 94 to the State Office for additional fees.

Field/State Office Information (all fields are required)

Person Making Request _____
Phone Number _____
Fax Number _____
Reviewed By _____

NFAOC Payoff Department FAX # (314) 457-4433

ATTACHMENT 13-B

National Financial and Accounting Operations Center (NFAOC)
Field Support Services
Phone (314) 457-5200 fax (314) 457-4441

ACCOUNT ISSUE AND SUGGESTED RESOLUTION SHEET

State_____ County Code_____ Date Submitted_____

Contact Person_____

Phone Number_____ext._____

Fax Number_____

Account Number	Account Name	Account Issue	Field Office Suggested Resolution	MOTI %

ATTACHMENT 13-C
CURE AND FINANCIAL STATEMENT

Name of Borrower:

Name of Co-Borrower:

Address of Borrower:

Customer Account #:

Number of Times Customer Cured account in past 24 months and dates cured:

Part 1 Delinquency Information

1. Reason for Delinquency:

2. Documentation to Support proof of payments being made (home repairs, medical expenses, other obligations:

3. Recommendation to cure:

Part 2 Household Income

Borrower: (Wages, tips, overtime, etc.)	$
Co-Borrower: (Wages, tips, overtime, etc)	$
Other: (Social Security, retirement, alimony, child support, AFDC, other income, etc.)	$

SHORT CURE REAM CHECKLIST

BORROWER INFORMATION	ACCOUNT #
1 ☐ Borrower(s) Name	
2 ☐ Property Address	
3 ☐ Short Cure Approval Date:	
4 ☐ Total Short Cure Amount	
5 ☐ Date Funds Received	
6 ☐ Preparer and Contact Information	
7 ☐ Local/State Office Phone #	
8 ☐ Date Submitted to NFAOC	

The documents listed below are needed to complete the Short Cure Ream. Please fax these documents to Field Assistance Desk @ (314) 457-4441. ***Please note TOTAL SHORT CURE AMOUNT and DOCUMENTS*** *must be received in order to begin the Ream process.* ***NFAOC will not accept partial cures or funds directly from the borrower.***

	Short Cure Documents Needed		Comments
9 ☐	Signed Approval Letter from the State Office	Letter must be signed by State Director or Designee	
10☐	Complete Payment Assistance Packet (Form RD 3550-21)	If the account is eligible for subsidy, a completed Payment Assistance packet must be included and faxed to Field Assistance.	
11☐	Copy of completed Funds Transmittal Report (**FTR**) (Form RD 3550-17) and Cashier Check or Money Order.	Please indicate on the FTR that funds are for SHORT CURE REAM. **Note:** NFAOC will not accept anything less than the total short cure amount listed on FTR.	
12☐	Please remit the total Short Cure amount in form of a Cashier Check or Money Order along with the original Funds Transmittal Report (Form RD 3550-17) **USDA RD** **P.O. Box 790300** **ST. LOUIS, 63179-0300**	Please advise borrower not to send funds to NFAOC. NFAOC will not post partial funds, any amount less than the short cure amount will be returned. The total short cure amount must be received and posted to the account prior to beginning the ream process.	
13☐	Cure & Financial Statement document HB-1 Attachment 13-C	Required	

INSTRUCTIONS FOR COMPLETING SHORT CURE REAM CHECKLIST	
1	**Required - Enter all Borrower Names (First, Middle and Last)**
2	**Required - Enter the full Property Address**
3	**Required - Enter the date the Short Cure was approved (Month, Day and Year)**
4	**Required - Enter the Total Short Cure Amount agreed upon**
5	**Required - Enter the Date Total Short Cure Amount was received**
6	**Required - List the name of the contact person approving the Short Cure**
7	**Required - Provide the phone number of the contact person**
8	**Required - Date mailed (submitted) to National Financial and Accounting Operations**
9	**Required - Signed Approval Letter from the State Office:** Letter must be signed by State Office Director or Designee
10	**Optional - Complete Payment Assistance Packet (Form RD 3550-21):** Required if the account is eligible for subsidy, a completed Payment Assistance packet must be included and faxed to Field Assistance Desk.
11	**Required - Copy of completed Funds Transmittal Report (FTR) (Form RD 3550-17) and copy of the Cashier Check or Money Order:** Please indicate on the FTR that funds are for SHORT CURE REAM. **Note:** NFAOC will not accept anything less than the total cure amount listed on FTR.
12	**Required - Please remit the total Short Cure amount** in form of a Cashier's Check or Money Order along with the original Funds Transmittal Report (Form RD 3550-17) **USDA RD** **P.O BOX 790300** **ST. LOUIS, 63179-0300** Please advise borrower not to send funds to NFAOC. The total short cure amount must be received and posted to the account prior to beginning the ream process. NFAOC will not post partial funds, any amount less than the short cure amount will be returned.
13	**Cure & Financial Statement document HB-1 Attachment 13-C.** Required documentation

ATTACHMENT 13-D

RUSH FUNDS PROCESSING

Notice of Foreclosure Sale – At least two weeks prior to sale, the Field Office must contact Prior Lien Holder to determine the procedure for bidding at sale:

- If the Agency is the successful bidder, how soon must funds be submitted?
- Is a deposit required on day of sale? What is the minimum deposit amount?
- Must the entire bid amount be paid the day of sale?

Securing of Funds – The State Office must assure that sufficient funds are available in the State's R/L funds bucket. If the State exceeds 90% of the entire State's allocation, authorization of the proposed voucher must be obtained. Procedures for acquiring additional funds can be found in RD Instruction 2024-A, Exhibit D.

Vouchering for Funds – When requesting emergency funds, the following information must be faxed to USDA St. Louis, Missouri at **(314) 457-4374, ATTN: Team 3**:

- RD Instruction 2024-A, Exhibit K, "Request for Emergency Payment"
- Form RD 2024-30, "Non-Contractual Program Loan Cost Expense (PLCE) Certification"
- Form AD-838, "Purchase Order"
- Form AD-838-B, "Invoice-Receipt Certification"

[COPIES OF ABOVE FORMS ATTACHED]

Determining Voucher Amount – Based on information received from Prior Lien Holder, the amount of voucher will be:

If a deposit is required	The voucher amount will be 10% of the Net Recovery Value amount as determined by a current appraisal and the NRV worksheet or the minimum amount required by Lender.
If the full amount is required	If the Agency is the successful bidder, the amount of the voucher will be an amount that exceeds the Prior Lien Holder's bid but not to exceed the Net Recovery Value.

Delivery of Funds – It is imperative that vouchers for emergency funds are submitted to St. Louis, Missouri, as soon as possible. All efforts will be made to have funds available to Field Offices as required for Foreclosure Sale. Funds will primarily be sent via Electronic Funds Transfer (EFT) based on submission time to St. Louis, Missouri.

- If the funding request is made in accordance with RD Instructions 2024-A, Exhibit K, and received in St. Louis, Missouri, before 12:30 p.m. CST, funds will be sent the same day.

- If the funding request is received in St. Louis, Missouri, after 12:30 p.m. CST, funds will be sent the next business day.

- If there are no electronic funds transfer facilities available, funds will be overnight expressed the next day.

Questions pertaining to emergency funds requests should be e-mailed to dcfo-fcb2@stl.usda.gov.

CHAPTER 14: [RESERVED]

(This chapter removed 06-09-04, PN 375)

CHAPTER 15: MANAGING CUSTODIAL AND REO PROPERTY

15.1 OVERVIEW

The Agency assumes management responsibility for 2 types of properties: custodial and real estate owned (REO). Custodial property is borrower-owned property which has been abandoned. REO is Agency-owned property to which the Agency has acquired title, either as a result of foreclosure or conveyance by deed in lieu of foreclosure. This chapter outlines the requirements for management of each type of property.

The Field Office is responsible for on-site management activities and should work closely with NFAOC during the liquidation process for custodial properties. NFAOC continues to be responsible for the financial management.

The goal of property management is to protect the Government's interest; consequently, efforts to secure property should begin as soon as the Agency has control.

SECTION 1: PROPERTY MANAGEMENT METHODS AND ACTIVITIES

15.2 MANAGEMENT METHODS AND CONTRACTS

The Agency may conduct the management activities discussed in this chapter using Agency staff or may contract with qualified entities to perform them. The method of management depends on such factors as the number of properties to be managed, their location, condition, the necessary maintenance, and the availability of qualified staff. In some cases, a simple maintenance contract is all that is needed; in others, the Agency may require a complete management contract where a contractor provides all property management services, including, but not necessarily limited to securing and cleaning up the structure, yard work, arranging for and inspecting repairs, paying utilities, and coordinating with contractors, potential buyers or brokers for access to the property.

A. Selecting a Management Contractor

Management contractors must be selected in accordance with Agency procurement procedures under RD Instruction 2024-A.

B. Management Contract Requirements

At a minimum, management contracts must:

- Allow for properties to be added or removed from the contractor's assignment, whenever necessary, such as when a property is taken into custody, acquired or sold during the period of a contract; and

- Prohibit the preparer or his/her associates from doing any of the repair work when a contract calls for specification writing services.

If a contract includes marketing or broker services and involves management of 5 or more single family homes in the same subdivision, the contractor must develop and obtain Agency approval of an Affirmative Fair Housing Marketing Plan, as described in RD Instruction 1901-E. The contracting official approves the plan, however, any questions that might arise with respect to an Affirmative Fair Housing Marketing Plan should be directed to the Civil Rights Coordinator in the State Office.

15.3 TAKING POSSESSION

A. Taking Custodial Possession

The Agency may need to take custody of security property when a borrower becomes incapacitated, dies or has abandoned a security property. When the NFAOC is unable to contact a borrower, the Field Office will be requested to inspect the property to determine its status and to attempt to contact the borrower. When the Field Office believes that a property may be abandoned, it will report to the NFAOC.

1. Determining Whether A Property Has Been Abandoned

The determination that a property has been abandoned requires significant investigation and documentation. In addition to the actions described in this paragraph, Field Staff must follow any procedures required by State or local law in order to confirm the determination of abandonment and to take custodial possession. A property is not considered abandoned if the borrower occupies the property, even if it is not being well maintained. Similarly, a property is not considered abandoned when the borrower does not occupy the dwelling but has made arrangements for its care. The Agency cannot act to obtain possession of a property as long as a lien holder has possession of the property, or the borrower or the lien holder has a right to lease proceeds. As a minimum, Field Staff must:

- Attempt to determine whether the security property is occupied, and if not by the borrower, what are the rights of the occupant; if any;

- Attempt to determine the location of and/or contact the borrower through sources such as neighbors, the postal service, utility companies, last-known employers, and relatives; and

- Determine whether there are other liens on the property and if liens exist, whether the lien holder(s) are willing to work with the Agency to secure the property.

2. Recommendation for Taking Custody

The Field Office will submit a report of its finding to NFAOC with a copy to the State Director advising that it appears the property has been abandoned and the Agency needs to assume responsibility for it in order to protect the security. Alternatively, if the Field Office reports that the property is occupied, the report will give details as to whether the occupant is under a lease or is unauthorized. The Field Office will provide any other relevant details and make the decision to take custodial possession of the property, as appropriate. The Field Office will notify NFAOC when the action has been taken.

3. Liquidation

The need to take custodial possession of a property may occur before or after a loan has been accelerated. If liquidation is not already in progress, taking custodial possession should initiate the process. The responsibility for conducting liquidation activities remains with NFAOC, supported by Field Office staff as required.

B. Acquisition of an REO Property

When the Field Office acquires a property, Field Staff must notify NFAOC. A new REO case file should be created from the original case file by removing and placing into the new file the title to the property, and recent inspection reports, appraisals, or other documentation related to the physical condition or value of the property. A list of all documents that have been removed should be placed in the original file. No information related to the borrower is needed in the REO file. Any documents relating to due diligence and response actions (clean-up activities) should also be placed in the REO file; however, these documents must be retained indefinitely to minimize Agency liability and should be so labeled.

15.4 INSPECTING AND SECURING CUSTODIAL AND REO PROPERTY

Inspection should be made of acquired property as soon as feasible after the foreclosure sale or other means of acquisition—usually within seven days. Field Staff must inspect the property to:

- Determine what steps need to be taken to further ensure its security and maintain its value.
- Identify whether the property is occupied and, if occupied, the intent of the occupants.
- Classify the property as program and nonprogram and evaluate the need for repairs.

A. Inspecting and Classifying the Property [7 CFR 3550.251(c)(1)]

Field Staff must designate REO property as program or nonprogram (NP) property after considering factors such as size, design, possible health and/or safety hazards, and obsolescence due to functional, economic, or locational conditions. A property that meets the requirements for program property, as described in Chapter 5, is classified as program property. Property that has been enlarged or improved, so that its value is clearly above program standards, or a property that would require major redesign or renovation to be brought to program standards, should be classified as NP property. REO property in an area no longer designated rural is treated as if it were still in a rural area.

For program property, a listing of needed repairs or improvements will be prepared. For NP properties, a listing should be prepared of any health and safety hazards which must be removed to release deed restriction. Repairs, if required, are typically a condition of sale and repair lists should be incorporated with the sale listing for all REO.

If the REO is occupied, preparation of the repair list may need to be delayed until the property is vacated, depending on the cooperation of the occupants. In this case, the status of the property should be monitored regularly.

The basis for classification as program or nonprogram must be thoroughly documented. Improper classification of the REO could result in an unsound loan if, for example, the remaining life of the property is less than the term of the loan. (A manufactured home with 15-20 years remaining life is not sound security for a subsidized loan with a minimum term of 25 years.) Classification as NP may significantly reduce the amount the Government could recover (especially if the REO is then leased) or could deprive a program-eligible family of an affordable home.

B. Securing Custodial and REO Property

When the Field Office assumes management responsibility and takes possession of either a custodial or REO property, immediate steps must be taken to inspect and secure the property whether by Field Office staff or management contractor.

1. Physical Security of Vacant Properties

If the property is vacant, it should be locked or otherwise secured and a no trespassing notice should be posted to prevent entry by unauthorized persons. For REO only, after an inspection determines utility systems are in safe operable condition, utility companies should be contacted to maintain or reinstate utility service. An inventory should be made of any nonsecurity personal property left on the premises and efforts made to identify any owners or lien holders.

2. Occupied REO Properties

REO property may be occupied by a tenant under a lease with the former borrower or by the borrower. The Agency may decide to honor an existing lease if it is in the Government's interest, or it may have to evict an unauthorized tenant.

When an REO property is under an existing lease and the Agency decides to continue the lease, the lessee must be notified, in writing, that the Agency has acquired the former lessor's rights under the lease and that all payments should be remitted to NFAOC. If a lease is to be terminated, the lessee must be notified, in writing, that their lease is being terminated in 30 days, and they must vacate.

Lease payments due, payable, and received before the date the Agency acquired the property are applied to the borrower's account. If there is a surplus, it is refunded to the former borrower. Lease payments due and payable after the date the Agency acquired the property are applied to a lease account established by NFAOC in the name of the lessee.

The Office of the General Counsel (OGC) should be contacted for advice and assistance when it is necessary to evict a tenant in order to obtain possession of REO property particularly if it is leased. A State Supplement will provide explicit instructions.

15.5 DISPOSITION OF NONSECURITY PROPERTY

The Agency has no legal claim on nonsecurity property. State or local law may affect procedures for disposing of property left on the premises

of a custodial or REO property. Field Staff must comply with any State or local requirements, as well as the procedures discussed in this paragraph. If the owner or lien holder of any personal property that remains in custodial or REO property can be identified and located, Field Staff must offer them a reasonable opportunity to remove the property. Any verbal conversations with the owner of the property should be confirmed in writing.

A. Custodial Property

The Agency cannot remove nonsecurity personal property from custodial properties, unless it cannot be safely stored, there are hazards that threaten the personal property (such as a leaking roof), or the personal property itself presents a hazard (such as flammables or explosives).

B. REO Property

1. Notice to Owners or Lien Holders of Personal Property

If the property is not retrieved after the initial notification, a certified letter should be sent, return receipt requested, notifying the owner or lien holder of the date on which the Agency will dispose of the property, that the property may be retrieved before the disposition upon payment of any expenses incurred by the Agency related to the personal property, such as advertisement or storage.

2. Disposal of Unclaimed Property

The Field Office will dispose of unclaimed property in accordance with its value and conforming with local practices. For example, if there are items of significant value, an advertisement may be placed in the local newspaper.

3. Income from Disposition

Proceeds from the sale of items under lien should be paid to any owner or lien holder after deducting Agency selling expenses. If there is no known owner or lien holder, proceeds are applied to the REO account.

15.6 TAXES AND INSURANCE

A. Taxes

REO property is subject to Real Estate taxation by State and local political jurisdictions in the same manner and to the same extent as other

properties, unless State law specifically exempts property owned by the Federal Government. If a jurisdiction changes the law to begin taxing Government-owned property, only taxes accruing after the effective date of the change will be paid. The Field Office will notify the taxing authority, in writing, when title to real estate is acquired and provide the Field Office address to which tax bills should be sent during Agency ownership.

If the value of the property is significantly less than the value at which it is being taxed, as soon as it is acquired, the Agency may request a new assessment by the local taxing authority.

If property is acquired subject to a prior lien, before the Agency pays taxes, the Field Office will contact the prior lien holder to determine if that lien holder will pay the taxes. Taxes on program property are paid when due. Taxes on nonprogram property may be deferred until the property is sold if the taxes that accrue before disposition may exceed the value of the property. If the taxing authority schedules a tax sale before the Agency can sell the property, Field Staff should calculate and compare the net recovery values that would result from paying the taxes and continuing sales efforts or letting the property be sold for delinquent taxes to determine which approach is in the Government's best interest. See Handbook-2-3550, Attachment 6-A for a net recovery value worksheet.

B. Insurance

1. Custodial Property

Insurance on custodial property will not be canceled. The Agency will not pay additional premiums to continue coverage.

2. REO Property

Insurance will not be canceled when property is acquired. However, the Agency will not pay additional premiums to continue coverage. If it is necessary to file a claim, Field Staff should submit the claim and direct that insurance proceeds be forwarded to NFAOC.

15.7 ENVIRONMENTAL REQUIREMENTS

The Agency must complete the appropriate level of environmental review under the National Environmental Policy Act for proposed management activities involving custodial and REO properties in accordance with RD Instruction 1970 series "Environmental"

Management activities subject to environmental review include conducting repair/maintenance activities, selling, or leasing Agency-owned real property.

Conducting repair/maintenance activities, selling, or leasing of custodial and REO property will normally qualify as a categorical exclusion provided no extraordinary circumstances exist (see RD Instruction 1970-B, section 1970.52) and the proposed action will not result in a change in use of the property in the reasonably foreseeable future. Refer to RD Instruction 1970 series "Environmental" for further direction.

When certain environmental resources are present, or when certain extraordinary circumstances exist, specific limitations or constraints are imposed by environmental law on the Agency's repair and maintenance, selling and leasing activities. In such cases, an Environmental Assessment (EA) rather than a categorical exclusion, may be required to address the situation properly. Consultation with RD Instruction 1970 series "Environmental", as well as the State Environmental Coordinator, is recommended before proceeding in the following circumstances.

A. Circumstances Necessitating an Environmental Assessment

1. Coastal Barrier Resources System (CBRS)

Any action proposed to be taken on a custodial or REO property within a CBRS must be coordinated with the State Environmental Coordinator and the Regional Director of the U.S. Fish and Wildlife Service (USFWS). In emergency situations to prevent imminent loss of life, imminent substantial damage to the inventory property, or the disruption of utility services, minimum steps necessary to prevent such loss or damage may be taken without first consulting the USFWS as long as the Regional Director of the Service is immediately notified of the emergency action taken.

Maintenance or repair is prohibited for property located within a CBRS if:

- The action goes beyond maintenance, replacement-in-kind, reconstruction, or repair and would result in the expansion of any roads, structures or facilities;
- The action is inconsistent with the purposes of the Coastal Barrier Resources Act (CBRA) 16 U.S.C. 3501. et. seq.; or
- The property to be repaired or maintained was initially the subject of a financial transaction that violated the CBRA.

The Administrator should be asked to review any cases where the Agency and the USFWS disagree on the effect of a plan of action or where otherwise prohibited maintenance and repair must be undertaken.

Approval for action will not be granted unless the Administrator determines, through consultation with the Department of Interior, that the proposed action does not violate the provisions of the CBRA.

2. Historic and Archaeological Resources

Properties that are listed or eligible for listing on the National Register of Historic Places, in whole or in part, will be repaired as necessary to protect their historic integrity after consultation with the State Historic Preservation Officer (SHPO) and the Advisory Council on Historic Preservation. If a property is listed or eligible for listing on the Register and also is located within the CBRS, the property cannot be repaired without the prior approval of the USFWS.

Field Staff will review the current Register to determine if the property is listed. If the property is not listed, the Field Staff will consult with the SHPO when the property is considered potentially eligible for the Register. A property is considered potentially eligible if it contains a structure more than 50 years of age or, regardless of age, if the property is known to be of historic or archeological importance, or has apparent significant architectural features.

Additionally, for properties located on Tribal land or in Indian country, consultation will be made with the Tribal Historic Preservation Officer (THPO) to determine if the property is known to be of historic or archeological importance.

3. Floodplains and Wetlands

If the Agency is considering a substantial improvement or repair to custodial or REO property located in a flood plain or wetland, the Agency must first consider whether there are practicable alternatives to such further investment in the floodplain or wetland area. For example:

- Could the property be sold “as is” with notice of floodplain/wetland hazard?
- Could the property be sold “as is” with a requirement that the structure be removed from the site?
- Could the Agency remove the structure first and sell the land with notice of hazard?

If there are no practical alternatives to the substantial improvements, then the Agency may proceed with the improvements, provided it includes any practical mitigation measures. On an existing structure, mitigation will generally involve some form of floodproofing, such as elevating hot water tanks, or heating and ventilation units.

A substantial improvement is defined as any improvement the cost of which equals or exceeds 50 percent of the market value of the structure either (1) before the repair is started, or (2) if the structure has been damaged, before the damage occurred. The cost of compliance with health, sanitary and safety codes is not included in the calculation of the substantial improvement cost, nor is the cost of repair to an historic structure included. If the repairs do not qualify as substantial, the Agency does not need to search for alternatives or mitigation measures.

4. Reportable Underground Storage Tanks

Properties that contain certain types of underground storage tanks must be reported to the State agency identified by the Environmental Protection Agency (EPA) within 30 days of Agency acquisition. Attachment 15-A provides a list of those underground storage tanks which must be reported and those which are exempt from reporting requirements. A State Supplement will provide the necessary EPA forms or acceptable State forms that may be used to accomplish the reporting, as well as detailing any additional State reporting requirements. A copy of the report must be maintained in the REO file, and any prospective buyers of the property must be furnished with a copy of the report.

B. Lease or Management Contract

1. Historic and Archaeological Resources

A property that is listed or eligible for listing on the National Register of Historic Places may be leased or operated by management contract only after the Agency and the SHPO (or THPO) determine that the lease or contract will adequately ensure the property's condition and historic character.

2. Floodplains and Wetlands

Before executing a lease for a property containing wetlands or located in a special flood or mudslide hazard area identified by the Federal Emergency Management Agency (FEMA), Field Staff must provide written notice of the hazard to the lessee. The notice must be attached to the lease. Any management contract must require the contractor to fulfill this obligation.

The lease or management contract for custodial or REO property containing wetlands or located in a floodplain area will also specify any uses of the property by the lessee or tenant that are restricted under any Federal, State or local floodplain and wetland regulations, as well as other appropriate restrictions. Examples of use restrictions would include prohibition of draining or filling of floodplain or wetland areas, and prohibitions of new above-ground construction on that portion of the property located in the floodplain or wetland area.

3. Hazardous Substance Activity - Notification

All property considered for lease must be evaluated for possible hazardous substance contamination. To do this, the Loan Approval Official completes Attachment 5-B, Single Family Housing Site Checklist. (If Attachment 5-B was completed prior to acquisition of

the property, the Loan Approval Official must determine if the attachment should be updated.) If the completed or updated attachment indicates potential contamination, it will be sent promptly to the State Environmental Coordinator for further evaluation and guidance. All clean-up actions will be taken under the guidance of the State Environmental Coordinator. For further information or notification, refer to Paragraph 16.18.

15.8 MANAGEMENT OF HAZARDOUS SUBSTANCES

A reasonable and prudent attempt will be made to minimize the Agency's liability under hazardous substance and hazardous waste laws, and a diligent effort will be made to evaluate economic risks to real estate posed by the presence of contamination from hazardous substances, hazardous wastes, and petroleum products, including underground storage tanks. The elements of potential liability and economic risk are addressed by the Agency by performing due diligence.

Due diligence is the process of inquiring into the environmental condition of real estate in the context of a real estate transaction to determine the presence of contamination from hazardous substances, hazardous wastes, and petroleum products, and what impact such contamination may have on the market value of the property.

The Loan Approval Official initiates due diligence by completing Attachment 5-B. If the completed attachment indicates a potential for contamination, it will be sent promptly to the State Environmental Coordinator for further evaluation and guidance.

For all servicing actions that require a determination of market value, the appropriate level of due diligence will be performed in conjunction with the appraisal. Due diligence also must be performed in conjunction with any servicing action that may lead to acquisition of security property.

The Loan Approval Official should be aware of suspicious situations during security inspections of custodial and REO property. If unauthorized dumping of potentially hazardous material is noted, due diligence will be performed.

To minimize the Agency's liability, any response action taken by the Agency in responding to a release or threatened release of hazardous substances or petroleum products on inventory property will be taken in consultation with and at the recommendation of the appropriate environmental regulatory authority. In the case of custodial property, the State Environmental Coordinator may initiate, as necessary, limited emergency response actions to stabilize an emergency or imminent and substantial threat to human health and the environment.

If the Agency is notified or made aware of the presence of an underground storage tank on custodial or REO property, the Loan Approval Official will ensure that the tank complies with appropriate environmental regulatory authority requirements or is removed. When reinstalling a fuel storage system, aboveground storage tanks should be used where feasible.

15.9 PHYSICAL MAINTENANCE AND REPAIR

Custodial property will be maintained and repaired only as needed to protect the security of the property and to prevent deterioration. In the event of damage or theft, the procedures described under Paragraph 15.9 A. should be followed.

REO property will be broom swept, free of trash and debris outside and maintained and repaired as needed to ensure the safety of potential buyers or contractors. Other repairs, including but not limited to those that improve the property to decent, safe, and sanitary (DSS) standards, or are needed to mitigate a negative effect on neighboring property may be made if Field Staff determine them to be necessary to market the property expediently, and they increase the market value by approximately the cost of the repairs.

A. Vandalism and Theft

Field Staff will report willful damage or theft to the local law enforcement authorities and in whatever manner necessary, to attempt to resolve the incident, including signing complaints and testifying at hearings or trials.

Field staff should send a written report of the incident to the State Director and copies to NFAOC and the Regional Office of the Inspector General (OIG). The State Director, in consultation with the OGC as necessary, will advise and assist the Field Staff.

Damage to REO program property as a result of vandalism and theft may be repaired as necessary to continue marketing. Repairs may include cost-effective improvements to minimize the likelihood of future damage, such as increased lighting, security fencing and removal of shrubs that limit visibility. Nonprogram property should be broom swept but generally will not be repaired unless necessary to prevent deterioration. Custodial property should be repaired only to protect the security and to prevention deterioration.

B. Off-Site Repairs or Improvements

The Agency may require off-site repairs or improvements to protect property from damage, to protect the Government's interest, or to enhance the marketability of property. In the case of multiple REO units in a subdivision, such improvements may include construction or reconstruction of roads, sewers, utility lines, subdivision entries, street signs, or central mail receptacles.

Off-site improvements must be approved by the Deputy Administrator, Single Family Housing. To obtain approval, Field Staff must prepare a justification that demonstrates failure to make the improvements would likely result in a property net recovery value loss greater than the expenditure and that there are no other feasible means with State or local entities, to accomplish the same result.

To obtain off-site improvements, the Agency may enter into a contract with a private company or enter into a cooperative agreement with a State or local government or other entity to obtain repairs or improvements. Under a cooperative agreement, the entity will provide money, property, services, or other items of value to the entity to accomplish a public purpose. While cooperative agreements are not a contract action, the authority, responsibility, and administration of a cooperative agreement must be consistent with contract action. The OGC should be consulted when a cooperative agreement is considered.

C. Lead-Based Paint Disclosure

The Residential Lead Based Paint Hazard Reduction Act of 1992, 42 U.S.C. 4822 et seq., requires lessors of housing built before 1978 who receive Federal assistance to provide the lessees with information about the housing's lead history and general information on lead exposure prevention.

Specifically, before the lessee becomes obligated under any contract to lease the housing, Field Staff must:

- Complete the Lead-Based Compliance Key, which can be found at: http://leadpaint.sc.egov.usda.gov/LBPWeb/index.html .
- Provide the lessee with the lead hazard information pamphlet, Protect Your Family from Lead in Your Home, available from the National Lead Information Clearinghouse at 1-800-424-LEAD, or a similar EPA-approved pamphlet developed by the State; and
- Disclose the presence of known lead-based paint and/or lead-based hazards in such housing and provide the lessee with any lead hazard evaluation report available to the Agency.
- Make sure that the requirements of 24 CFR Part 35, Subparts A, B, and C have been met.

SECTION 2: SPECIAL USES

15.10 LEASING CUSTODIALS AND REO

Generally, neither REO nor custodial property is leased. However, in special cases, such as when custodial property is subject to lengthy liquidation proceedings or legal problems prohibit the immediate sale of an REO property, the property may be leased. Custodial property cannot be leased if extensive repairs are necessary in order for it to be inhabitable. Properties subject to redemption rights cannot be leased unless the State Director obtains prior approval from OGC. Property which does not meet decent, safe and sanitary standards will not be leased.

It is preferable to lease the property to an intended buyer. The Agency may require a prospective renter to make a purchase offer, and submit an application for credit and a credit report paid for by the applicant. The rent charged should be a market rent equivalent to rents of similar properties in the area. If the lessee is a program applicant, the monthly rent may be based on the estimated monthly loan payment taking into consideration any payment assistance, plus 1/12 the sum of the estimated real estate taxes, property insurance, and maintenance payable by a homeowner. In no case will a lease be for a token amount, even if the tenant is willing to barter for maintenance or repair services.

A lease form approved by OGC will be used. A copy of the lease should be sent to NFAOC, where a lease account will be established in the lessee's name.

When a lease is terminated, or when the property is sold before expiration of the term shown on the lease submitted to NFAOC, the Field Staff must notify NFAOC of the termination and the effective date of the termination.

A. Security Deposits

The Agency requires a security deposit of one month's rent, except from nonprofit organizations or public bodies. Security deposits are remitted to NFAOC. When a tenant vacates the property, Field Staff sends a memorandum to NFAOC asking for the return of the deposit to the Field Office for delivery to the lessee. If the deposit is to be retained by the Agency, it is applied to the borrower's account for custodial property or to the REO account, as appropriate.

B. Costs and Income

Expenditures on leased custodial properties are charged to the borrower's account. Expenditures on REO property are charged to the REO account. The Agency does not pay utilities or any other costs of operation of leased property. Lease proceeds for custodial properties are applied to the borrower's account. Proceeds for custodial properties are applied to the borrower's account.

15.11 SPECIAL USES OF REO

A. Transitional Housing for the Homeless

The Agency has entered into a Memorandum of Understanding with the U.S. Department of Health and Human Services (HHS) (see Attachment 15-B) that states that HHS will direct community groups to the Agency to identify specific REO properties that may be available as shelter projects. Nonprogram REO property may be leased for up to 10 years to nonprofit organizations as transitional housing for the homeless for $1.00 with prior approval from the Deputy Administrator, Single Family Housing. The lessee assumes responsibility for real estate taxes on the leased property, any needed repairs to the property, and regular maintenance of the property.

Leases executed under this program must make the local nonprofit organization responsible for all liabilities and costs arising out of the habitation of the property. The Agency must inspect the property after the lease is executed to ensure that property is being maintained and used for its intended purposes. Inspections should be made at least yearly thereafter.

Attachment 15-C includes a fact sheet that can be used by both the Agency and entities interested in using REO property for the homeless and Attachment 15-D contains a sample lease.

B. Use by Federal Emergency Management Agency (FEMA)

By a Memorandum of Understanding between the Agency and FEMA (see Attachment 15-E), REO property which is not under lease or sales agreement is available to shelter disaster victims in an area designated as a major disaster area by the President. In such an event, FEMA assumes responsibility for all costs associated with inhabiting the dwelling.

FEMA and the Agency must sign a "Letter of Assignment," (see Attachment 15-F) which includes a mutually agreed upon inspection report outlining the condition of the property being assigned to FEMA. Field Staff should retain the Letter of Assignment in the REO file. No rent is paid by FEMA for the first 12 months from the date of the letter of assignment of the housing. Beyond that, FEMA pays the monthly fair market rental value as determined by the Agency.

C. Mineral Leases

When it is in the best interest of the Government, the Agency may lease mineral rights. OGC should be contacted for assistance in preparing the lease agreement. The appropriate level of environmental review must be completed prior to any agreement to lease mineral rights. Since such actions may be controversial and may have the potential for significant impact on the environment, prior consultation with the State Environmental Coordinator is required.

ATTACHMENT 15-A

UNDERGROUND STORAGE TANKS THAT MUST BE REPORTED

A. Underground storage tanks that meet the following criteria must be reported in 2 types of situations.

1. **Situation 1**

- A tank, or combination of tanks (including pipes which are connected thereto), of which the volume is 10 percent or more beneath the surface of the ground, including the volume of the underground pipes; and

- The tank is not exempt from reporting requirements under Paragraph B. of this attachment, and

- The tank contains petroleum or substances defined as hazardous under section 101(14) of the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. 9601. The State Environmental Coordinator should be consulted whenever there is a question regarding the presence of a regulated substance.

2. **Situation 2**

- It is known that the tank contained a regulated substance, was taken out of operation by the Agency since January 1, 1974, and remains in the ground.

B. Underground storage tanks that are exempt from the Environmental Protection Agency (EPA) reporting include:

- Farm or residential tanks of 1,100 gallons or less capacity used for storing motor fuel for noncommercial purposes;

- Tanks used for storing heating oil for consumptive use on the premises where stored;

- Septic tanks;

- Pipeline facilities (including gathering lines) regulated under: (1) the Natural Gas Pipeline Safety Act of 1968; (2) the Hazardous Liquid Pipeline Safety Act of 1979; or (3) for an intrastate pipeline facility, regulated under State laws comparable to the provisions of law referred to in (1) or (2);

- Surface impoundments, pits, ponds, or lagoons;
- Storm water or wastewater collection systems;
- Flow-through process tanks;
- Liquid traps or associated gathering lines directly related to oil or gas production and gathering operations; or
- Storage tanks situated in an underground area (such as a basement, cellar, mineworking, drift, shaft, or tunnel) if the tank is situated upon or above the surface of the floor.

Even if a storage tank does not need to be reported according to these criteria, if the Agency has reason to believe there has been a release of petroleum or other regulated substance from an underground storage tank on a real estate owned (REO) property, this incident must be reported to the appropriate State Agency and the State Environmental Coordinator who will inform the State Office of the appropriate action to take.

ATTACHMENT 15-B

MEMORANDUM OF UNDERSTANDING BETWEEN UNITED STATES DEPARTMENT OF AGRICULTURE (USDA) AND DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)

For the efficient and orderly implementation of this agreement it is mutually agreed:

1. HHS will request the support of the Farmers Home Administration (FmHA), an Agency of USDA to lease or otherwise make available vacant rural single family homes or like facilities to community nonprofit organizations interested in initiating shelter projects.

2. The FmHA will identify necessary actions to be taken to implement the program. Therefore, HHS will notify community groups of the program and of the required procedures.

3. FmHA and HHS have agreed on the following policy guidelines to properly structure the program:

   a. HHS will identify and respond to community interest and initiatives;

   b. HHS will request local government support;

   c. HHS will direct community groups to FmHA County Supervisors to identify specific facilities within the FmHA inventory; and

   d. FmHA County Supervisors will be given the authority, as deemed appropriate by FmHA, to process lease agreements and increase or decrease the number of facility units available for lease.

4. Leases executed under this program shall be with local nonprofit community organizations and shall make such organizations responsible for all liabilities arising out of the habitation of the particular facility and for all costs incident to and associated with the habitation of the particular facility (e.g., renovation, maintenance, security, etc.).

5. The FmHA will provide the criteria for leasing rural facilities in accordance with FmHA housing regulations.

6. Any documentation required to measure or assess the results of the program will be the responsibility of HHS. Such information will be made available to FmHA upon request.

/s/ Margaret M. Heckler	/s/ John R. Block
Department of Health and Human Services	United States Department of Agriculture

ATTACHMENT 15-C

FACT SHEET

THE FEDERAL INTERAGENCY TASK FORCE ON FOOD AND SHELTER FOR THE HOMELESS

In April 1984, a Task Force on Food and Shelter for the Homeless was established under the President's Council on Private Sector Initiatives. This Task Force, which includes representation from several Government Agencies including the Rural Housing Service (RHS) (formerly FmHA), is responsible for developing and examining Federal resources such as Government inventory properties which may be utilized by the homeless. A Memorandum of Understanding was established between the Department of Agriculture and the Department of Health and Human Services to make available vacant single family houses, by lease, to public bodies and nonprofit organizations for transitional housing for the homeless. In lieu of cash rent, the entity is required to maintain the property, pay real estate taxes and maintain property insurance.

RHS is committed to working with community based organizations in this regard to the extent practicable.

General Guidelines

1. Only nonprogram RHS real estate owned (REO) properties are available for lease. RHS classifies a property as nonprogram property when it does not meet the single family program standards, generally because it has been enlarged or improved so that its value is above program standards or because it would require major renovation or redesign to be brought to program standards.

2. Leases of nonprogram properties will be for a period of up to 10 years. A 10-year lease may be necessary for the public body or nonprofit organization to obtain transitional housing funds from the Department of Housing and Urban Development (HUD).

RHS Responsibilities

1. Upon request from a public body or nonprofit organization, RHS will provide a list of all REO properties available for sale. The list will clearly identify which properties are classified as "program" (and therefore ineligible for leasing) and "nonprogram." The list will be provided regardless of whether the properties are listed for sale with real estate brokers.

2. If a public body or nonprofit organization approaches RHS to lease a specific property, upon written notification of intent to lease, RHS will withdraw the property from sale for a period not to exceed 30 days to provide such entity with the opportunity to execute a formal lease. RHS will make a determination as to repairs and/or renovations necessary for the property to meet "decent, safe and sanitary" (DSS) standards. Repairs/renovations will be limited to those necessary to remove health and safety hazards and provide adequate, safe and operable heating, plumbing, electrical, water and waste disposal systems. Cosmetic repairs such as painting, landscaping, floor covering, etc., will not be considered unless they present health or safety hazard. If RHS determines the proposed repairs/renovations are reasonable in cost, RHS will contract to have said work performed upon after execution of a formal lease. If repairs/renovations costs are excessive the public body or nonprofit organization will be asked to select another property for lease. If no such properties are available, and none are expected in the foreseeable future, the State Office will obtain further guidance from the Single Family Housing Direct Loan Division (SFHDLD) in the National Office.

3. RHS will inspect the property after the lease is executed to ensure the property is being maintained and used for its intended purposes. Inspections will be made at least yearly.

Public Body or Nonprofit Organization Responsibilities

1. Contact RHS when interested in leasing or purchasing RHS REO property to provide transitional housing for the homeless.

2. When leasing is contemplated, provide RHS with documentation of the need for this type housing in the community and planned use. Documentation should include verification of the need for the type housing, financial statements verifying the entity's ability to make cosmetic repairs, if needed, maintain the property, pay utilities, real estate taxes, insurance, etc., proposed use of the property, sample lease or occupancy agreement for potential occupants, nondiscrimination policy, etc. The public body or nonprofit organization should provide all necessary documentation to RHS to assure success of the project.

3. Use any property in a prudent manner for its intended purpose. Maintain the property in good condition, ensuring the exterior and lot are maintained consistent with other properties in the area. Comply with all State and local laws, ordinances, etc. regarding use of residential property. Maintain adequate records relating to the use of the property. Allow RHS to inspect the property annually at reasonable times and review records to ensure the property is being utilized for its intended use.

4. When the need for such property no longer exists, advise RHS of the intent to terminate the lease. Return the property in the same or better condition than when the lease was executed.

ATTACHMENT 15-D

LEASE OF SINGLE FAMILY DWELLING

THIS LEASE is made and entered into this _____ day of _____, 20____, by and between the United States of America acting through the Rural Housing Service (RHS) of the Rural Development mission area (hereinafter referred to as "LESSOR") and _____ (hereinafter referred to as "LESSEE").

RECITALS:

UNDER PROVISIONS OF the Housing Act of 1949, as amended, and in keeping with agreements with the Federal Interagency Task Force on Food and Shelter for the Homeless to provide transitional housing for the homeless in rural areas, AND, in consideration of the covenants and agreements herein contained to be done, kept and performed, the parties hereto agree as follows:

(1) Premises. LESSOR hereby leases the PREMISES, known as _____
_____
_____
City of _____, County of _____, State of _____, to LESSEE and LESSEE hereby leases the PREMISES from LESSOR for the term and upon the covenants and conditions set forth herein.

(2) Term. The term of this lease shall be for a period of _____ ( ) year(s) commencing on the _____ day of _____, 20____, and ending on the last calendar year of _____, 20____, unless sooner terminated under any applicable provisions of this Lease. This lease may be extended on a month-to-month basis after the termination date of this lease with prior written consent of the LESSOR and LESSEE.

(3) Payments. In consideration of ONE DOLLAR, in hand paid at the time of execution of the lease, and the following requirements to be performed by LESSEE, LESSOR agrees it will have received adequate compensation from LESSEE, and LESSEE agrees to the following:

a. LESSEE shall be responsible for all taxes and assessments levied on the PREMISES as of the date of this LEASE. The LESSEE shall reimburse the LESSOR for any taxes and assessments which have or will be prepaid by the LESSOR through a proration of such taxes and assessments. LESSEE shall pay taxes and assessments directly to the payee and provide documentation of such payment to the LESSOR, or may provide such funds directly to the LESSOR at least 30 days prior to the due date. LESSEE will pay all taxes and assessments in a timely manner.

b. Within forty-five (45) days after execution of this Lease, or other reasonable time period mutually agreed to in writing between the parties herein, the LESSEE, at the LESSEE's sole expense, shall make any further repairs, with prior approval of the LESSOR, as LESSEE determines necessary to make the property habitable.

c. LESSEE, at its sole expense, shall ensure the PREMISES are maintained, repaired, and kept in a clean sanitary condition during the term of this Lease.

d. LESSEE shall be responsible for all utility costs incurred on the PREMISES during the term of this Lease.

(4) Use. The LESSEE shall utilize the premises only for the purpose of providing transitional housing for homeless persons and will not charge such persons a rental or occupancy charge greater than the costs incurred by LESSEE in compliance with the provisions of paragraph 3, plus a reasonable amount for administrative costs.

(5) Hold Harmless. The LESSEE shall indemnify and save harmless the LESSOR, its officers, agents, servants and employees from all liability under the Federal Tort Claims Act (62 Stat. 869, 982; 28 U.S.C. Sec. 2071, 2680) or otherwise, for death or injury to all persons, or less or damage to the property of all persons resulting from use of the premises by the LESSEE, its sublessees or licensees. Further, LESSEE will save the LESSOR harmless from all fines, penalties, and costs for violation or noncompliance with any of said laws, requirements, or regulations, and from all liability arising out of any such violation or noncompliance.

(6) Damage or Destruction. In the event any damage or destruction to the property shall be caused by its acts or neglect of its sublessees or licensees, the LESSEE shall forthwith repair such damage at its own expense, and should the LESSEE fail or refuse to make such repairs within a reasonable time after the occurrence of such damage, the LESSOR may at Lessor's option terminate this lease, make such repairs and charge the cost thereof to the LESSEE, and the LESSEE, shall thereupon reimburse the LESSOR for the total cost of all damages so caused. In the event LESSEE insures the PREMISES against loss by fire and other hazards, LESSOR shall be named as a co-beneficiary. Further, in the event that the PREMISES are damaged or destroyed through no act nor neglect of LESSEE its sublessees and licensees and are reentered untenable, this Lease shall be terminated upon receipt of written notice of either party to the other.

(7) Delivery of Possession. At the end of the term of this Lease, LESSEE shall surrender said premises vacant to the LESSOR and in a habitable condition as defined in paragraph 3.b. except if the lessor so directs it will be boarded up and secured. No alteration, addition, or improvements shall be made in or to the premises without the consent of the LESSOR in writing, except for maintenance items, and all additions and improvements by the LESSEE shall belong to the LESSOR. All goods and chattels placed or stored in or about the premises are at the risk of the LESSEE.

(8) Lessor's Remedies. The LESSEE further agrees that if it should fail to comply with any other all provisions of this agreement, then in any of said cases, it shall be lawful for the LESSOR, at its election or option, to re-enter and take possession, the LESSEE hereby expressly waiving any and all notices to vacate said premises, and thereupon this lease shall absolutely terminate; however, the failure of the LESSOR to insist upon the strict performance of the terms, covenants, agreements and conditions herein contained, or any of them, shall not constitute or be construed as a waiver or relinquishment of the Lessor's right thereafter to enforce any such term, covenant, agreement, or condition, but the same shall continue in full Force and effect.

(9) No Member of Congress to Benefit. No member of, or Delegate to Congress, or Resident Commissioner shall be admitted to any share or part of this lease or to any benefit that may arise therefrom.

(10) Warranty Against Use of Agents. The LESSEE warrants that it has not employed any person to solicit or secure this lease upon any agreement for a commission, percentage, brokerage or contingent fee. Breach of this warranty shall give the LESSOR the right to annual this lease or in its discretion to recover from the LESSEE the amount of such commission, percentage, brokerage or contingent fee in addition to the condition herein set forth.

(11) Nondiscrimination. The LESSEE agrees not to discriminate against any employee or applicant for employment, or against any individual seeking housing, because of race, color, religion, national origin, sex, marital status, handicap, or age.

THIS LEASE contains the entire agreement between the parties hereto, and neither party is bound by any representations or agreements of any kind except as herein contained.

_____	USDA, RURAL DEVELOPMENT RURAL HOUSING SERVICE, LESSOR
By: _____	By: _____ State Director
(Typed Name) (Title)	(Typed Name)
_____	_____
_____	_____
_____	_____
(Address)	(Address)
Telephone: (_____)_____	Telephone: (_____)_____

ATTACHMENT 15-E

MEMORANDUM OF UNDERSTANDING BETWEEN THE FEDERAL EMERGENCY MANAGEMENT AGENCY AND THE FARMERS HOME ADMINISTRATION

Purpose

This Memorandum of Understanding establishes authorities and procedures whereby the Federal Emergency Management Agency (FEMA) may utilize both single family and multiple housing units which are habitable, and to which the Farmers Home Administration (FmHA), an Agency of the U.S. Department of Agriculture (USDA), has title and possession. The housing units assigned to FEMA by FmHA are to provide temporary housing to victims of major disasters or emergencies declared by the President, in accordance with sections 302(a) and 404(a) of Public law 93-288, the Disaster Relief Act of 1974.

Effective Date of this Memorandum

This memorandum shall be effective on the date of the last signature hereto.

Duration of Agreement

This memorandum shall continue to be in effect for a period coinciding with the authority under which it is entered.

Modifications

This Memorandum of Understanding and its attachments may be modified in writing by mutual consent of the parties.

Responsibilities

FmHA shall make available to FEMA on request habitable single family and multiple housing units in its inventory that are located in designated disaster areas and that are not under lease or under agreement of sale. FEMA will reimburse FmHA for authorized expenses, as set out herein, resulting from utilization of assigned housing units.

Implementation

This memorandum shall be implemented in accordance with the following general procedures. FEMA and/or FmHA may prepare other detailed operating procedures as necessary for internal use of the agencies. These latter procedures will be in compliance with the provisions of this Memorandum.

(a) Delegation of Authority. The signatories to this agreement will delegate authority to implement this agreement to their respective employees, in writing. When a disaster occurs, the persons to whom this authority has been delegated shall identify employees, contractors, and agents authorized to implement the appropriate provisions of this Memorandum of Understanding and other FEMA and/or FmHA detailed operating procedures. FEMA and FmHA will exchange a list containing names, addresses, and telephone numbers of such employees, contractors and agents, who will implement the agreement with respect to the specific major disaster. Other references to FEMA and FmHA in the following paragraphs will be interpreted to include contractors, agents, and employees designated to implement the provisions of this Memorandum of Understanding.

(b) Assignment of FmHA Housing Units to FEMA

(1) Upon declaration by the President of a major disaster or emergency, FEMA may request from the appropriate FmHA State Director a list of all habitable housing units available in designated disaster areas indicating the county or counties where housing is needed.

(2) At its discretion, FmHA may sell or lease until directly to displaced FmHA borrowers instead of providing them to FEMA. FmHA will provide FEMA a list of such sales or leases for information purposes and to prevent duplication of benefits.

(3) During the period of occupancy of a housing unit by a disaster victim, FEMA will inform the occupant that FmHA lending assistance may be available for purchase of the housing unit as permanent housing.

(4) Before assignment to FEMA and occupancy by a disaster victim, each housing unit under consideration will be inspected jointly by FmHA and FEMA. The agencies will then execute a Letter of Assignment for each habitable housing unit assigned to FEMA. A Preoccupancy and Termination Joint Inspection report (FEMA Form 90-11) will be prepared, signed by both agencies, and attached to the letter of assignment. The FmHA advice number will be noted prominently on this form.

(5) FmHA will remove all RHS signs, such as "no trespassing," "for sale," etc. from housing units assigned to FEMA.

Management of Housing Units

(a) Necessary maintenance on housing units assigned to FEMA shall be performed by FEMA at its expense, or FEMA shall reimburse FmHA for accomplishing such maintenance as agreed upon by local agency representatives.

(b) FEMA shall furnish to FmHA the names and mailing addresses of unit occupants, the property designation, the beginning occupancy date, and notice of changes in occupancy.

(c) During business hours FmHA authorized employees may inspect housing units. Advance notice of forty-eight (48) hours will be given to FEMA, who will, in turn, advise the occupant.

(d) FEMA shall not permit a disaster victim to occupy a housing unit beyond the period of eligibility in accordance with 44 CFR 205.52.

(e) There shall be no rental charge to FEMA by FmHA for assigned housing units for the first twelve (12) months from the date of the letter of assignment. If a housing unit is assigned to FEMA for more than one year after the date of the letter of assignment, FEMA shall pay FmHA the fair market rental value as determined by FmHA for each subsequent month.

(f) If an occupancy fails to vacate a housing unit after housing benefits are terminated, FEMA shall conduct the predetermination procedures in 44 CFR 205.52 and shall, if appropriate, undertake eviction action.

Return of Housing Units to FmHA

(a) When a housing unit is vacated and FEMA determines that it is no longer needed, FEMA shall notify FmHA.

(b) FEMA and FmHA authorized employees, contractors, or agents will jointly inspect the vacated housing unit to determine maintenance, cleanup, and repairs required to return the housing unit to a physical condition comparable to that existing at the time of the initial joint inspection. Necessary maintenance and repairs shall be performed by FEMA at its expense, or FEMA shall reimburse FmHA for accomplishing such repairs as agreed upon by local agency representatives. Repairs shall be in accordance with local, State, or Federal codes.

(c) FEMA shall return the keys to, custody of, and responsibility for units to FmHA when needed maintenance, cleanup and repairs are completed. FmHA shall prepare a receipt and provide a copy to FEMA.

Approvals

This agreement is executed by the Administrator, Farmers Home Administration, USDA and the Associate Director, State and Local Programs and Support, FEMA, by virtue of their general authorities to do so.

/s/ Charles W. Shuman

Administrator
Farmers Home Administration
U.S. Department of Agriculture

Date: 11/3/82

/s/ Lee M. Thomas

Associate Director
State and Local Programs and Support
Federal Emergency Management Agency

Date: 10/4/82

ATTACHMENT 15-F

FEDERAL EMERGENCY MANAGEMENT AGENCY AND THE RURAL HOUSING SERVICE FEMA-RHS LETTER OF ASSIGNMENT

STATE: _____

COUNTY: _____

Under the Memorandum of Understanding between the Federal Emergency Management Agency (FEMA) and the Farmers Home Administration (now the Rural Housing Service [RHS]) effective November 3, 1982, the habitable housing unit identified on the attached inspection report is made available by RHS for use by FEMA or its Agent as temporary housing for victim(s) located within the following described designated disaster area and who are eligible for such assistance under the provisions of the Disaster Relief Act of 1974:

This Letter of Assignment shall become effective on the date signed by the authorized employees, contractors, or agents. This assignment is for the housing unit identified by the attached inspection report and having the following advice number: _____.

	FEMA	RHS
NAME:	_____	_____
TITLE:	_____	_____
DATE:	_____	_____

CHAPTER 16: DISPOSING OF REAL ESTATE OWNED PROPERTY

SECTION 1: PRICING AND LISTING PROPERTIES

16.1 OVERVIEW

The Agency will make every effort to sell Real Estate Owned (REO) properties quickly and at the best possible price. Whenever possible, preference will be given to selling REO program property to buyers eligible for Direct or Guaranteed SFH programs. The authorized RD official mentioned throughout this chapter will depend on whether the state has centralized their foreclosure and REO processing with the National Financial and Accounting Operations Center (NFAOC). For those states that have centralized their foreclosure and REO processing, NFAOC is the authorized RD official. For those states that have retained those functions, the State Director or designee is the authorized RD official.

A. Sale Methods and Pricing

Most REO properties are sold through real estate brokers. However, the Agency may sell properties through sealed bid, auction, negotiation, or agreements with other Federal agencies, such as the Department of Housing and Urban Development (HUD).

REO housing for program eligible borrowers is initially priced for sale based upon its "as is" market value with adjustments made based on the Agency's liquidation value factors which can be found in the SFH Direct SharePoint site. Administrative price reductions are to be taken over time to facilitate sale of the property (see Paragraph 16.3 B. for a discussion of price reductions). A schedule is published that restricts sales of program property to program-eligible buyers for a period of time before any offering to the general public, and whenever there is a reduction in price for program properties.

An Affirmative Fair Housing Marketing Plan, as described in Paragraph 16.4 A., must be prepared when 5 or more REO properties are for sale in the same market area at the same time.

B. Financing

When funds are available, the Agency may offer financing to buyers of REO property. When program credit is offered, the loan is processed following the loan origination procedures described in this handbook. If an REO property is sold for less than the appraised value to a program borrower, the equity credited to the borrower in the Form RD 3550-12, Subsidy Repayment Agreement is the difference between the selling price and the loan amount.

Nonprogram credit terms may be offered to investors or when the buyer is not eligible for Section 502 assistance or the property does not qualify as a program property. Investors and other nonprogram applicants are not subject to income eligibility, asset, citizenship or occupancy requirements to be extended credit. Chapter 11 provides instructions for processing loans on nonprogram terms. Buyers who receive financing on nonprogram terms must be advised that they are not eligible for payment subsidies or moratoriums.

C. Warranty

The Agency does not provide a warranty of either the title or the physical condition of any REO property except with regard to contamination from hazardous substances or petroleum products. Section 4 of this chapter provides additional guidance for managing hazardous substances when disposing of REO property.

D. MortgageServ Processing for REO Sales

MortgageServ tracks the progress of REO sales and activities. Agency staff will access MortgageServ and update activity on specific properties.

16.2 CONTRACTING FOR SALES SERVICES

Agency personnel may sell REO property when staffing and workload permit, but sales are normally handled through the services of real estate brokers. The preferred method for obtaining broker services is to enter into an exclusive contract with a single broker. However, the Agency also may enter into open listing agreements that permit any licensed real estate broker to provide sales services. Once a broker has been employed, the Agency will refer all inquiries to that broker or to the list of participating brokers.

A. Selecting Exclusive Brokers

Exclusive broker contracts are awarded on a competitive basis. In order to do business with the Agency, brokers must be properly licensed in the State in which they do business. Attachment 16-A provides a sample solicitation package, sample broker qualifications, and criteria that may be used to evaluate offers from prospective brokers.

B. Announcing Open Listing

When an open listing method is used to obtain broker services, any licensed real estate broker can offer to provide the services. At least annually, the Agency should announce that sales services are being requested by advertising in a newspaper of general circulation or sending notices to all real estate brokers in the counties affected. Attachment 16-B provides a sample advertisement.

Brokers who respond in writing and are determined to be qualified will be designated as "participating brokers." Each participating broker must execute Form 1955-42, Open Real Property Master Listing Agreement, which provides the terms and conditions under which the sales services are to be provided.

C. Commissions

Broker's commissions will be negotiated as part of the selection process and are not paid until the sale has closed and title has passed to the purchaser. Commissions should not exceed the typical commissions paid for comparable services.

D. Broker Purchases of REO Properties

Participating brokers must notify the Agency whenever a participating real estate broker, the broker's salesperson, a member of the broker's or salesperson's household, or a legal entity in which the broker or salesperson has an interest, buys REO property.

If Agency credit is required, no commission will be paid to participating brokers who purchase an REO property, and only half of the standard commission will be paid to a non-participating broker who purchases an REO property.

16.3 PRICING AND SALES SCHEDULES

REO pricing for program properties is based upon the as-is market value stated in the appraisal multiplied by the liquidation value factors posted on SharePoint. The liquidation value factors on SharePoint should not be applied to an appraisal report's liquidation value, if applicable. Nonprogram properties are offered for sale at the lower of Net Recovery Value (NRV) or the appraised value multiplied by the applicable liquidation value factor. Additional administrative price reductions may reduce the offering price to facilitate the sale. Mineral, water, and similar rights are generally sold with the property and are not sold separately except when the Government's security interest will not be jeopardized. Lease or royalty interests that do not pass by deed are assigned to the buyer.

A. Appraisals

To determine the property's present market value, the Agency must arrange for an appraisal using the procedures described in Section 5 of Chapter 5. If repair or improvement is planned, the appraisal must provide both as-is and as-improved values. Each as-improved appraisal must include a list of the planned repairs. Any special flood or mudslide hazard areas or wetlands and any flood plain or wetland use restrictions must be reflected in the appraisal. All REO property considered for disposal or lease must be evaluated for possible contamination from hazardous substances or petroleum products through the process of due diligence and completion of Attachment 5-B as described in Paragraph 16.18. This will normally be completed at the same time as the appraisal.

A property must be reappraised whenever its condition has deteriorated, it has been significantly damaged or vandalized, additional repairs and improvements have been made, or there has been a change in market conditions. Be especially alert to potential contamination from unauthorized dumping while the property is owned by the Agency and, if necessary, update Attachment 5-B and the appraisal prior to sale or lease. The need for reappraisal should be established as quickly as possible so that the property is based upon its true value. Appraised value is not affected by administrative price reductions.

An appraisal with interior inspection should be ordered immediately after the Agency is informed that the foreclosure sale was unsuccessful and the Agency has made a determination that the property will be offered initially to program eligible buyers. The appraisal must have an "as-is" market value and may include an "as-improved" value if repairs to the property are needed.

B. Sales Schedules and Administrative Price Reductions [7 CFR 3550.251(c)(4)]

The sale of REO program property is restricted for Direct or Guaranteed SFH loans when a property is first offered for sale and any time an administrative price reduction is taken. Exhibit 16-1 provides the sales schedule for program property; Exhibit 16-2 provides the sales schedule for nonprogram properties. The sales price is fixed when a sales contract is executed and does not decrease further based upon scheduled price reductions.

Exhibit 16-1

Sales Schedule for Single Family Housing REO Property
Program Property

DATES	ACTION
Days 1-30	Available for sale exclusively to eligible Direct or Guaranteed SFH buyers for the "as-is" appraisal value multiplied by the applicable liquidation factor percentage found on the SFH SharePoint.
Days 31-60	Available for sale exclusively to eligible Direct or Guaranteed SFH buyers at a value 5% less than the initial 30 days.

If the property is not under contract before the 61st day then the case will be referred to the authorized RD official and offered for sale as a nonprogram property. The authorized RD official will be consulted to determine the best sales method: public auction, sealed bid, continued listing, etc. If it continues as a listing, then it will enter the schedule outlined in Exhibit 16-2 as a day 61 property at 90% of the initially offered price.

Exhibit 16-2
Sales Schedule for Nonprogram REO Property

DATES	ACTION
Days 1-30	Available for sale to anyone at the lower of the NRV or the "as-is" value of the appraisal multiplied by the liquidation value factor on SharePoint.
Days 31-60	Available for sale to anyone following the preceding terms with an additional discount of 5%.
Days 61-120+	Available for sale to anyone for 10 percent less than then initial listed price. An additional discount of 5% occurs monthly until the property is under contract or it is determined that an alternative sales method is more likely to result in a sale.
Day 121	If not done already, discuss marketing efforts and consult with the authorized RD official for further advice on sales initiatives, to reappraise, or to authorize a sealed bid or public auction.

As a reminder, nonprogram properties are available to eligible public bodies or nonprofits for transitional housing for the homeless at an additional discount of 10% with a term of 30 years and no required downpayment. See Paragraphs 16.10 B and C.

REO properties that do not sell after four months should be referred to the authorized RD official for consideration of other sale methods or to determine whether additional marketing efforts and incentives are needed.

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SECTION 2: MARKETING

16.4 MARKETING AND ADVERTISEMENT

A good marketing plan is the key to reaching the maximum number of potential buyers and to ensuring that eligible Direct or Guaranteed SFH loan applicants have an opportunity to purchase REO properties. The Agency may advertise directly or contract for advertising services. Exclusive broker contracts may include advertising services. All advertisements must state occupancy or environmental restrictions.

Property on Tribal Allotted or Trust Land
[7 CFR 3550.251(c)(3)]

REO property located on tribal allotted or trust land will be sold or otherwise disposed of only to an eligible tribal member, the tribe, or to the Indian Housing Authority serving the tribe. Attachment 16-C may be used as a guide in notifying these entities of an available property.

A. Fair Housing and Affirmative Fair Housing Marketing Plan

All advertising must meet equal housing opportunity requirements and contain the equal housing opportunity statement and logo. An Affirmative Fair Housing Marketing Plan is required whenever there are 5 or more REO properties for sale in the market area at the same time. The plan remains in effect for 1 year or until all properties covered under the plan are sold, whichever is later. When an exclusive broker contract is used, the plan is prepared by the broker and approved by the State Director or NFAOC. When a sale is conducted by the Agency or under an open listing agreement, the plan is prepared by the Agency and must be approved by the State Director or NFAOC. RD Instruction 1901-E provides more guidance on civil rights requirements.

B. Truth in Lending Act (TILA) and Real Estate Settlement Procedures Act (RESPA) Integrated Mortgage Disclosures rule (TRID)

If the availability of Agency financing will be advertised, marketing efforts must conform to the requirements of the TRID. Exhibit 16-3 highlights these requirements.

C. Advertising and Marketing Methods

Advertising efforts should be designed to reach a broad audience. The Agency should identify appropriate marketing efforts and tailor them for each market area. At a minimum, the property should be posted on the USDA REO Sales website and posted on the Agency office bulletin board. Other marketing efforts that may be appropriate include:

- Posting advertisements in public locations accessible to prospective purchases, including community bulletin boards and major employment sites;

- Informing current and potential program applicants or investors of the availability of REO properties.

- Ensuring that the listing broker has the property listed (with pictures) on popular internet home search sites such as the Multiple Listing Service, Realtor.com, Zillow, Redfin, or other popular sites in the local geographic area.

- Inform loan application packagers, nonprofits, and other stakeholders working in the property's service area.

Sample advertisements are included in Attachment 16-D.

Exhibit 16-3

TRID Highlights

- Advertisements that state specific credit terms must state only terms that will actually be offered.
- Any finance charge listed must be stated as an annual percentage rate.
- Key terms related to financing used in the advertisement must be defined.

D. Review of Marketing for Unsold Properties

At least quarterly, the State Director or NFAOC must review the status of unsold REO property to ensure that acquired properties are being placed on the market promptly, properties on the market are selling within a reasonable time frame, and that properties under contract are closed promptly. Of particular concern are properties:

- Acquired more than 30 days ago that have not yet been made available for sale;

- That have been available for sale for 3 months or more and are not under contract; and

- That have been under contract for more than 30 days and have not closed.

16.5 SPECIAL MARKETING TECHNIQUES

A. Buyer Incentives

The State Director or NFAOC may authorize buyer incentives when a specific market area is depressed and the incentives are commonly offered to stimulate buyer interest. To authorize buyer incentives, describe past efforts to sell similar properties and explain why the proposed incentives are expected to produce improved results. Incentives, such as offering to provide one or more home appliances or to pay closing costs, may be appropriate for any property. Seller concessions for program applicants should not create overages where the buyer receives cash at closing beyond their out-of-pocket expenses such as the earnest money, inspection costs, homeowner's insurance, etc. Amortization schedules longer than the standard term may be offered for nonprogram properties.

B. Broker Incentives

When an additional broker incentive is needed, such as when a very low-value property offers an inadequate commission, the State Director or NFAOC may authorize a minimum commission or fixed-amount sale bonus. To authorize broker incentives, describe the past efforts to sell the property and justify the amount and the purpose of the incentive. Upon the approval of the State Director or NFAOC, a written offer of the incentive that specifies the requirements and circumstances in which the incentive will be given must be provided to the broker.

C. Acquisition of Land, Easements, or Rights-of-Way to Effect Sale

When it will help the sale of REO property and it is in the best interest of the Government, the State Director or NFAOC may authorize the acquisition of adjacent land, easements, or rights-of-way in order to cure title defects or encroachments. Additional land may not be acquired at a cost in excess of its appraised market value.

16.6 REO PROPERTY NOT MEETING AGENCY STANDARDS [7 CFR 3550.251(c) (2)]

When REO property does not meet the Agency's standards of being decent, safe and sanitary (DSS) and it is not economically feasible for the Government to repair it, the property is listed, advertised, and sold with specific occupancy restrictions.

DSS housing is defined as housing that meets the requirements described in RD Instruction 1924-A for existing construction. If the housing does not meeting the requirements, it still may be considered DSS if it:

- Is structurally sound and habitable;
- Has a potable water supply;
- Has functionally adequate, safe, and operable heating, plumbing, electrical and sewage disposal systems;
- Is energy efficient; and
- Is safe - that is, a hazard does not exist that would endanger the health or safety of occupants.

The deed by which such a property is conveyed will contain a covenant restricting it from residential use until it meets the Agency's dwelling standards, as discussed in Section 2 of Chapter 5. Property that is not DSS must still meet the Agency's environmental requirements, including the management of hazardous substance requirements discussed in Section 4 of this chapter.

In the event that the Agency has acquired property that is unsafe and cannot feasibly be made safe, for reasons that are environmental in nature or relate to contamination from hazardous substances or petroleum products, the Agency will provide appropriate information to the State Environmental Coordinator or Program Support Staff for their review and guidance.

A. Notice of Occupancy Restriction

The notice of sale and sale contract must describe the specific conditions that prohibit occupancy and the items necessary for the property to meet DSS standards, using Form RD 1955-44, Notice of Residential Occupancy Restriction or language similar to the following:

> "Pursuant to section 510(e) of the Housing Act of 1949, as amended, 42 U.S.C. 1480(e), RHS has determined the dwelling on this property inadequate for residential occupancy. The quitclaim deed by which this property will be conveyed will contain a covenant restricting it from residential use until the dwelling is repaired or renovated as follows:" (Insert those items necessary for the property to meet DSS standards.)

For purposes of advertising, the list of specifications may be replaced with a statement to contact the Agency, or the real estate broker under an exclusive listing contract or "any real estate broker" for open listing agreements, whichever is relevant, for a list of specific items necessary for the property to meet DSS standards.

B. Quitclaim Deed Restrictive Covenant

The quitclaim deed must contain a covenant restricting residential occupancy which describes the conditions which prohibit occupancy and the specific items necessary for the property to meet DSS standards, using Form RD 1955-44 or language in a State Supplement, similar to the following:

> "Pursuant to Section 510(e) of the Housing Act of 1949, as amended, 42 U.S.C. 1480(e), the purchaser ('Grantee' herein) of the above described property ('subject property' herein) covenants and agrees with the United States acting by and through the U.S. Department of Agriculture ('Grantor' herein) that the dwelling unit located on the subject property as of the date of this quitclaim deed will not be occupied or used for residential purposes until the item(s) listed at the end of this paragraph have been accomplished. This covenant shall be binding on Grantee and Grantee's heirs, assigns and successors and will be construed as both a covenant running with the subject property and as equitable servitude.
>
> This covenant will be enforceable by the United States in any court of competent jurisdiction. When the existing dwelling unit on the subject property complies with the aforementioned standards of the U.S. Department of Agriculture in accordance with its regulations, the subject property may be released from the effect of this covenant and the covenant will thereafter be of no further force or effect. The property must be repaired as follows:" (Insert the items referenced in the notice of sale and sale contract, necessary for the property to meet DSS standards.)

C. Release of Restrictive Covenant

When the owner requests a release of the restrictive covenant, the Agency inspects the property. The Agency will provide to the owner a release of the covenant if the conditions which prohibited occupancy have been corrected, the specific items necessary for the property to meet DSS standards have been provided, or the structure necessitating the restrictive covenant has been removed from the site. The owner will be responsible to file such release and any related filing costs.

SECTION 3: SALE METHODS

16.7 REGULAR SALE METHOD

No offers to purchase an REO property will be accepted until the property is officially offered for sale. Any offers received before the property is offered for sale must be returned to the offeror.

A. Listing the Property

REO property is offered for regular sale using Form RD 1955-43, Notice of Real Property for Sale (Single Family Housing). The date indicated on Form RD 1955-43 is the effective date of the offer. An offer may be submitted at any time after the effective date listed in the notice.

When an offer is accepted, the notice of sale is revised to indicate that only back-up offers will be taken. The notice is not withdrawn until the sale is closed, except when the offer is from a nonprofit organization or a public body for transitional housing for the homeless.

REO Property Subject to Redemption Rights

REO property subject to redemption rights may still be sold if the Agency determines that there is low probability of its redemption and State law permits its sale. In States where such sales are permitted, a State Supplement will be issued with the specific State law requirements. The buyer must sign a statement acknowledging sale conditions under State law. The original signed statement will be filed in the REO file and transferred to the borrower's case file if it is Agency financed.

B. Submission Requirements

An offer to buy must be submitted on Form 1955-45, Standard Sales Contract, Sale of Real Property by the United States. Offers received in any other form must be returned to the offeror. Any offer that is made contingent upon Agency credit should be accompanied by a completed Form RD 410-4, Application for Rural Assistance (Nonfarm Tract) Uniform Residential Loan Application.

C. Receiving and Considering Offers

Each offer must be date stamped when it is received. When a property is first offered for sale, all offers received during the first 4 business days after the effective date will be considered as if they were received on the same day. Any offer on a program property from other than a program applicant during the 60 day reservation period will be held and considered received on the 61st day.

Offers received on the same business day are selected in the following order:

1. An offer from an eligible Direct or Guaranteed SFH loan-applicant with a request for credit on program terms. All program offers are evaluated as if they were submitted at the listed price, regardless of the offering price.

2. An offer from a nonprofit or public body for conversion to use as transitional housing, multifamily housing, or for other special purposes as specified in 7CFR Part 3550, Section 3550.251(d).

3. A cash offer, from the highest to the lowest.

4. A nonprogram credit offer, from the highest to the lowest. An offer with a request for credit in excess of the market value of the property is not acceptable. If an excessive amount of credit is requested, the offeror will be given the opportunity to reduce the credit request to an amount equivalent to or lower than the market value less any required down payment. However, no change is made in the offered price.

The acceptable offer from like offers of equal priority received on the same business day are selected by lot. When selection is by lot, offers drawn after the first are held as back-up and the offeror so notified.

The Agency selects the first minimum acceptable offer received and executes Form RD 1955-45. Form RD 1955-45 is sent to the bidder along with Handbook Letter 10(3550), 'Status of Offer to Buy Single Family Housing REO Property,' and Handbook Letter 10(3550) is sent to the bidder's broker. Handbook Letter 10(3550) also is used to notify all unsuccessful bidders of the status of their offers.

D. Earnest Money

The notice of sale must specify any earnest money requirements. No earnest money will be collected when Agency staff conduct the sale. In broker assisted sales, an earnest money deposit in an amount that is customary for the market, is required when the sales contract is signed. Earnest money is held by real estate brokers and is applied to the purchaser's closing costs.

E. Cancellation of Sales Contracts

If an offer contingent upon obtaining Agency financing on program terms is selected and the credit request is subsequently rejected, the next offer is considered.

Property is not held off the market pending the outcome of an appeal. If there are no back-up offers, the notice of sale is revised to indicate the new status of the property.

When a sales contract is canceled due to offeror default, any earnest money collected is forwarded to the local Agency office where it will in turn be forwarded to NFAOC for application to the General Fund.

16.8 DISPOSITION BY SEALED BID OR AUCTION

Any use of the sealed bid or auction methods must be authorized by the State Director. Program properties are considered for sale using these methods only when a property has not sold through regular sales efforts after 60 days. Either method may be used as the initial sale effort for nonprogram properties when regular sale efforts are not likely to result in prompt sale (such as when structures have been substantially destroyed by fire).

A. Establishing the Minimum Acceptable Offer

The Agency must develop and document the recommendation for the minimum acceptable bid or sales price using the Net Recovery Value worksheet provided in Handbook-2-3550, Attachment 6-A.

B. Publicizing the Sale

The Agency solicits sealed bids or publicizes an auction by public notice. The notice must include the date, time, and place of the bid opening or auction, describe how bids are to be made, the required percentage of bid deposit, the maximum credit terms, the cash preference percentage described in Paragraph 16.8 C.3., and other pertinent information, such as occupancy restrictions, or notice of special flood or mudslide hazard area or wetland.

C. Sealed Bid Procedures

Sealed bids must be made on Form RD 1955-46, Invitation Bid and Acceptance-Sale of Real Property by the United States, and be accompanied by a deposit provided in the form specified in the bidding instructions. No deposit is required from bidders who are eligible program purchasers. A minimum deposit of 10 percent is required for nonprogram loans.

1. Receiving and Opening Bids

All bids will be date and time stamped when they are received. Sealed bids will be held in a secured file before bid opening. The bid opening will be held publicly at the place and time specified in the notice with at least 2 Agency employees present. Each bid received will be recorded showing the name and address of the bidder, the amount of the bid, the amount and form of deposit, and any conditions of the bid. The record of bids will be signed by the staff person conducting the bid opening and retained in the REO file.

2. Reviewing and Accepting Bids

Only responsive bids will be considered. To be considered responsive, bids must be signed and dated by the offeror, include any required deposit, and be for an amount at least equal to the established minimum bid. Minor deviations or defects in the bid submission may be waived by the Approval Official so long as the bid meets these minimum requirements.

Generally, the highest bid will be selected. However, cash bids will be given preference over bids that are contingent upon the offeror obtaining financing if the cash offer is at least equal to a specified percentage of the highest offer. Exhibit B of RD Instruction 440.1 specifies the applicable percentage.

In the case of identical bids for a program property eligible Direct or Guaranteed SFH loan, purchasers will be selected by lot before bidders who are not eligible for a Direct or Guaranteed SFH loan.

3. No Acceptable Bid

If no acceptable bids are received, the Agency may negotiate a sale at the best price possible in accordance with Paragraph 16.9. All bidders must be informed, in writing, of any anticipated negotiations. Deposits must be returned to all bidders by certified mail, return receipt requested.

4. Notification to Bidders

The Agency sends Handbook Letter 10 (3550) to notify unsuccessful bidders that their bids were not accepted and who the successful bidder was. Deposits must be returned to all unsuccessful bidders by certified mail, return receipt requested.

When a bid is accepted, the Agency executes Form RD 1955-46 and sends Handbook Letter 10 (3550), Status of Offer to Buy Single Family Housing REO Property.

5. Failure to Close

If a successful bidder fails to perform under the terms of the offer for any reason other than denial of credit by the Agency, the bid deposit will be forfeited and forwarded to NFAOC for application to the General Fund.

Upon determination that the successful bidder will not close, the State Director may authorize direct negotiations with the next highest bidder, authorize another sealed bid sale, or authorize negotiations with other interested parties, as described in Paragraph 16.9.

D. Auction Procedures

The State Director will determine whether an Agency employee will conduct the auction or whether the complexity of the sale requires the services of a professional auctioneer. Form 1955-46, Invitation Bid and Acceptance-Sale of Real Property by the United States, is used for auction sales.

1. Selecting a Professional Auctioneer

Auctioneers are selected through the procurement process as described in RD Instruction 2024-A. The commission will be set as part of the auctioneer solicitation. If an auctioneer submits a bid with a commission rate that is significantly lower than other bids, detailed documentation will be provided attesting that they have successfully sold properties at the lower rate with no compromise in service.

2. Bid Deposits

Successful bidders will be required to make a bid deposit of 10 percent of the sales price, except this fee will be waived for eligible Direct or Guaranteed SFH bidders, pending final determination of eligibility. Deposits should be in the form of cashier's check, certified check, postal or bank money order, or bank draft payable to the Agency. Cash and/or personal check may be accepted only if deemed necessary for a successful auction to occur by the person conducting the auction.

3. Accepting Bids

When the highest bid is lower than the minimum amount acceptable to the Agency, negotiations should be conducted with the highest bidder or, in turn, the next highest bidder(s) or other persons known to be interested to obtain an executed bid at the predetermined minimum.

4. Purchaser's Default

Upon purchaser's default, the Agency will retain the bid deposit as a Miscellaneous Collection. The property may then be disposed of through a negotiated sale.

16.9 NEGOTIATED SALE

If no acceptable bid is received either from a sealed bid sale or at a public auction, the State Director or NFAOC may negotiate a sale at the best price possible without further public notice by negotiating with interested parties, including previous bidders.

A sale made through negotiation will be documented and accepted by the Approval Official on Form RD 1955-46, Invitation Bid and Acceptance-Sale of Real Property by the United States and must be accompanied by a bid deposit of 10 percent of the negotiated sales price, except that the deposit will be waived for program-eligible buyers.

16.10 DISPOSAL OF PROPERTY FOR SPECIAL PURPOSES [7 CFR 3550.251(d)]

REO properties may benefit people in need of housing who can be reached in cooperation with other programs or Federal agencies. Cooperative agreements with other Federal or State-assisted housing programs will be announced and updated with Administrative Notices.

A. Multifamily Housing

Multiple units of REO property may be sold as multifamily housing. In this case, the properties and the applicants must meet the requirements for the loan program under which the sale is proposed.

B. Transitional Housing for the Homeless

Upon request from a public body or nonprofit organization, the Agency provides a list of available REO property, designating whether each is a program or nonprogram property. Upon receipt of written notice from the entity of its intent to buy the property, the Agency withdraws a nonprogram property from the market for a period not to exceed 30 days to provide the entity time to execute a sale contract.

If an entity is making an offer on a program property it is only considered after the initial 60 day reservation period has expired per Exhibit 16-1. The property does not need to be marketed further to other nonprogram buyers when an eligible nonprofit has an offer awaiting the expiration of the initial reservation period. An earnest money deposit is not required.

1. **Price**

If the entity wants to buy a nonprogram property, the currently listed price is discounted by an additional 10 percent. Program property is exclusively reserved for program eligible borrowers for a minimum of 60 days.

2. **Repairs to Meet DSS Standard**

If the entity wants to buy a nonprogram property that does not meet DSS standards, the Agency repairs it to remove health or safety hazards unless cost of the repairs is prohibitive. Cosmetic repairs such as painting, floor covering, landscaping, and repairs to improve thermal performance are the responsibility of the buyer. All repairs or renovations to make the property habitable and to meet DSS standards should be discussed, put in writing, and made part of the sale contract. However, the environmental requirements, including the requirements for management of hazardous substances and petroleum products, discussed in Section 4 of this chapter must be followed. The Agency shall abate all identified lead based paint hazards in all REO properties built before 1960.

C. Affordable Housing [7 CFR 3550.251(c)(4)]

REO property may be sold under special provisions to nonprofit organizations or public bodies for the purpose of providing affordable housing to very low and low-income families. Organizations that purchase REO property for transitional housing purposes may do so at a discount of no more than ten percent (10%) of the currently offered price. For any REO property, no earnest money deposit is required. Further, the Agency will offer financing on nonprogram rates and up to 30 year terms, with no down payment required. Special terms, listed in Chapter 11, can be considered, depending upon the planned use of the property and repayment ability.

Offers from organizations on program REO properties will be considered after the first 60 days of listing in order, but before listing as nonprogram, to give appropriate priority to program borrowers. Offers from organizations on nonprogram REO properties may be considered at any time. After receiving a written request from an organization for the purchase of an REO property (after the reservation period for program REO properties and at any time for nonprogram REO properties), the Agency will withdraw the property from the market for up to 30 days in order to negotiate a purchase agreement.

16.11 DISPOSAL AS CHATTEL OR SALVAGE

If the Agency is unable to sell nonprogram property by regular sale, sealed bid, or public auction, the structure may be sold as chattel or salvage to be removed from the site. Form RD 1955-47, Bill of Sale "A" is used to transfer title of real property converted to chattel to the purchaser.

If no offer is received to remove the structure, the State Director or NFAOC may contract or arrange to have it demolished, in exchange for the salvaged materials or otherwise as determined appropriate. For example, the local firefighting unit may be permitted to use a structure slated for demolition as a burn for firefighting practice. Once the structure is disposed of, the lot will be offered for sale as nonprogram REO property.

For example, the local firefighting unit may be permitted to use a structure slated for demolition as a burn for firefighting practice. Once the structure is disposed of, the lot will be offered for sale as nonprogram REO property.

If REO property is a vacant lot, the lot is offered for sale as nonprogram property.

SECTION 4: ENVIRONMENTAL REQUIREMENTS

16.12 OVERVIEW

The Agency must complete the appropriate level of environmental review under the National Environmental Policy Act for disposal of REO property in accordance with RD Instruction 1970 series "Environmental". The proposed disposal of REO property will normally qualify as a categorical exclusion. However, an environmental assessment, and when necessary an EIS, is required for any proposed disposal of REO property that meets one of the following criteria:

- The Agency has reason to believe the transaction would result in a change in use of the REO property within the reasonably foreseeable future.
- There is a violation of applicable Federal, state, or local statutory, regulatory, or permit requirements for environment, safety, and health.
- Conditions on the site are likely to cause uncontrolled or unpermitted releases of hazardous substances, pollutants, contaminants, or petroleum and natural gas products.
- There is an existence of controversy based on effects to the human environment brought to the Agency's attention by a Federal, tribal, state, or local government agency.
- The property has an adverse effect on the following environmental resources:
  - Historic properties;
  - Federally listed threatened or endangered species, critical habitat, Federally proposed or candidate species;
  - Wetlands (those actions that propose to convert or propose new construction in wetlands will require consideration of alternatives to avoid adverse effects and unwarranted conversions of wetlands);
  - Floodplains (those actions that introduce fill or structures into a floodplain or propose substantial improvements to structures within a floodplain will require consideration of alternatives to avoid adverse effects and incompatible development in floodplains. Actions that do not adversely affect the hydrologic character of a floodplain, such as buried utility lines or subsurface pump stations, would not create an extraordinary circumstance; or purchase of existing structures within the floodplain will not create an extraordinary circumstance but may require consideration of alternatives to avoid adverse effects and incompatible development in floodplains when determined appropriate by the Agency);

- Areas having formal Federal or state designations such as wilderness areas, parks, or wildlife refuges; wild and scenic rivers; or marine sanctuaries;
- Special sources of water (such as sole source aquifers, wellhead protection areas, and other water sources that are vital in a region);
- Coastal barrier resources or, unless exempt, coastal zone management areas; and
- Coral reefs.

This section summarizes the basic environmental information that pertains to disposal of REO properties. For more detailed information and assistance, refer to RD Instruction 1970 series "Environmental" or consult the State Environmental Coordinator.

16.13 PROPERTY LOCATED WITHIN A SPECIAL FLOOD OR MUDSLIDE HAZARD AREA OR CONTAINS WETLANDS

REO property located in a special flood or mudslide hazard area will not be sold for residential purposes unless it is determined safe—that is, any danger that exists by virtue of the floodplain location is not likely to endanger the health or safety of the occupants—and prior written notice of the specific hazard is given.

Form RD 1955-46, "Invitation Bid and Acceptance-Sale of Real Property by the United States," must include notice of special flood or mudslide hazard areas or wetlands and related use restrictions. Prospective purchasers, auctioneers, and brokers must be informed and acknowledge receipt of notice of these circumstances, and all advertisements need to reference them.

The conveyance instrument for disposal of REO property containing wetlands or located in a special flood or mudslide hazard area must specify those uses of the property that are restricted under any Federal, State or local floodplain and wetland regulations, as well as other appropriate restrictions. Use restrictions will relate to the use of the property by the purchaser and any successors as determined by the Agency. Examples of use restrictions include prohibition of draining or filling of floodplain or wetland areas, prohibition of new above-ground construction on that portion of the property located in the floodplain or wetland area, and prohibition against subdividing floodplain or wetland property into building lots.

16.14 COASTAL BARRIER RESOURCES SYSTEMS [7 CFR 1955.137(a)]

REO property located within a Coastal Barrier Resources System (CBRS) will not be sold until the State Environmental Coordinator has consulted with the appropriate Regional Director of the U.S. Fish and Wildlife Service, and the Regional Director concurs that the proposed sale does not violate the provisions of the Coastal Barrier Resources Act (CBRA).

No Federal financing is permitted for REO properties located within a CBRS, since flood insurance under the National Flood Insurance Program is not available for properties within the CBRS.

16.15 NATIONAL REGISTER OF HISTORIC PLACES

When REO property has been determined to be listed on (or eligible to be listed on) the National Historic Register, the Loan Approval Official responsible for conveyance must consult with the State Historic Preservation Officer (SHPO) in order to establish any necessary restrictions on the use of the property so that the future use will be compatible with preservation objectives as long as it does not result in an unreasonable economic burden to public or private interest. The Advisory Council on Historic Preservation must be consulted by the Loan Approval Official after the discussions with the SHPO are concluded.

Any restrictions that are developed on the use of the property as a result of the above consultations must be made known to potential bidders or purchasers through all advertisements and notices regarding the property, as well as in writing when the prospective purchaser signs the bid or offer to purchase. Acknowledgment of receipt of this notice will be obtained from the purchaser at that time and kept in the file.

If the property is located on Tribal land or in Indian country, additional consultation with the Tribal Historic Preservation Officer should also be initiated.

16.16 PROTECTIVE COVENANTS AND EASEMENTS

The Agency has an affirmative responsibility to take actions to protect environmental resources located on REO property before that property is disposed of. "Affirmative responsibility" refers to the fact that there are certain protections that are required by Federal, State, or local environmental laws. Frequently, such protective actions or mitigation measures will take the form of a covenant or conservation easement. In addition to floodplains, wetlands, coastal barriers, and historic places, this affirmative responsibility also extends to the following resources:

- Listed or proposed endangered or threatened species;
- Listed or proposed critical habitat;
- Designated or proposed wilderness areas;

- Designated or proposed wild or scenic rivers;
- Natural landmarks listed in the National Register of Natural Landmarks;
- Sole source aquifer recharge areas designated by EPA;
- Designated national trails;
- Important farmland; or
- Areas of high water quality.

The State Environmental Coordinator should be consulted if it appears that the proposed disposal of REO property may involve any of these resources.

16.17 REPORTABLE UNDERGROUND STORAGE TANKS

When disposing of REO property containing reportable underground storage tanks as described in Paragraph 15.7 A.4., the Agency, if it has not already done so, must file the appropriate report with the State agency identified by the Environmental Protection Agency (EPA). The potential purchaser of the property will be informed by the Loan Approval Official of the reporting requirement and provided a copy of the filed report.

16.18 MANAGEMENT OF HAZARDOUS SUBSTANCES AND PETROLEUM PRODUCTS

All REO property considered for disposal must be evaluated for possible hazardous substance contamination. To do this, the Loan Approval official completes Attachment 5-B as the initial level of inquiry in the due diligence process.

If Attachment 5-B was completed prior to acquisition of the property, the RD Official must determine if the document should be updated. If the completed or updated Attachment 5-B indicates potential contamination, it will be sent promptly to the State Environmental Coordinator for further evaluation and guidance. All clean-up actions will be taken under the guidance of the State Environmental Coordinator.

If Attachment 5-B was completed prior to acquisition of the property, the RD Official must determine if the document should be updated. If the completed or updated Attachment 5-B indicates potential contamination, it will be sent promptly to the State Environmental Coordinator for further evaluation and guidance. All clean-up actions will be taken under the guidance of the State Environmental Coordinator.

When disposing of REO property, prospective purchasers, lessees, or tenants will be notified of any possible contamination of the property by releases of hazardous substances, hazardous wastes or petroleum products, as well as any information concerning any clean-up activities by attaching to the deed or lease:

A statement that a report of the Agency's investigation into potential contamination at the site (the due diligence report) and a description of any clean-up activities is available for public review or has been made available to the purchaser or lessee; and

A statement that the Agency does not provide warranty regarding the accuracy of the information in the due diligence report or the effectiveness of any clean-up activities.

16.19 LEAD-BASED PAINT

The Agency's Lead-Based Compliance Key must be utilized for all REO properties. The Agency has adopted the following subparts of the lead based paint regulation, 24 CFR part 35:

Subpart A, "Disclosure of Known Lead Based Paint Hazards Upon Sale or Lease of Residential Property"

Subpart B, "General Lead Based Paint Requirements and Definitions"

Subpart C, "Disposition of Residential Property owned by a Federal Agency other than HUD"

Subpart D, "Project-Based Assistance Provided by a Federal Agency Other than HUD"

Subpart J, "Rehabilitation (applicable sections)"

Subpart R, "Methods and Standards for Lead Based Paint Hazard Evaluation and Hazard Reduction Activities."

The requirements of these subparts are applicable to all housing constructed prior to 1978 that is financially assisted by the Agency or is being sold by the Agency.

SECTION 5: PROCESSING AND CLOSING

16.20 OVERVIEW

If the Agency is closing the sale with program financing, the sale is closed in accordance with program closing instructions provided in Chapter 8. If other financing is being used, the financing agent's closing procedures should be followed. Cash sales are closed by the Agency collecting the sale price and delivering the Quitclaim Deed to the buyer.

Title clearance and property insurance requirements for a program financed sale are the same as for a program loan.

16.21 SPECIAL NOTICES AT SALE

A. HUD Insured Financing

If necessary to effect a sale with HUD-insured financing, the Agency may execute a sales contract amendment containing the following language:

> "It is expressly agreed that, notwithstanding any other provisions of the contract, the purchaser shall not be obligated to complete the purchase of the property described herein or to incur any penalty by forfeiture of earnest money deposits or otherwise unless the seller has delivered to the purchaser a written statement issued by the Federal Housing Commissioner setting forth the appraised value of the property (excluding closing costs) of not less than $ (insert sales price) which statement the seller hereby agrees to deliver to the purchaser promptly after such appraised value statement is made available to the seller. The purchaser shall, however, have the privilege and option of proceeding with the consummation of the contract without regard to the amount of the appraised valuation made by the Federal Housing Commissioner. The appraised valuation is arrived at to determine the maximum mortgage the Department of Housing and Urban Development (HUD) will insure. HUD does not warrant the value nor the condition of the property. The purchaser shall satisfy himself/herself that the price and condition of the property are acceptable."

B. Disclosure of Lead-Based Paint or Hazards

In accordance with the Residential Lead-Based Paint Hazard Reduction Act of 1992, sellers of housing receiving Federal assistance built before 1978 must provide the purchasers of such housing with specific information about the housing's lead history and general information on lead exposure prevention. As seller the Agency must:

- Provide the buyer with the lead hazard information pamphlet, Protect Your Family from Lead in Your Home, available from the National Lead Information Clearinghouse at 1-800-424-LEAD, or a similar EPA-approved pamphlet developed by the State;

- Permit the buyer a 10-day opportunity to conduct a risk assessment or inspection for the presence of lead-based paint hazard; and

- Include in the sales contract: (1) For a property constructed after 1959 and before 1978, a disclosure of any lead-based paint hazard; (2) a list of any information about the hazard available to the seller and passed on to the buyer; and (3) a Lead Warning Statement and acknowledgment, signed by the buyer. A sample disclosure format, including the required Lead Warning Statement, is provided in Appendix 12.

- For a program property constructed before 1960, abate all identified lead-based paint hazards in accordance with 40 CFR 745.227.

- For a nonprogram property containing lead-based paint hazards constructed before 1960, the use of an occupancy restriction is authorized in accordance with 16.6. The purchaser will meet the requirements of 24 CFR 35.210(b) and provide the Agency with a clearance exam that shows all lead-based paint hazards have been abated prior to occupancy. Nonprogram REO properties located on Tribal allotted or trust land, or sold to a nonprofit organization or public body to provide transitional housing for the homeless are not authorized to be sold with an occupancy restriction.

16.22 INSPECTION

An inspection of the property by the buyer should be scheduled immediately before closing to ensure the condition of the property and the resolution of any problems or discrepancies.

16.23 PRORATING REAL ESTATE TAXES AND/OR ASSESSMENTS

When REO property is subject to taxation and/or assessments, they are pro rated between the Agency and the buyer, as of the date the title is conveyed. The Agency is responsible for all taxes and assessments accrued as of the settlement date, and the buyer is responsible for all taxes and assessment which accrue after the closing date. The Agency's pro rata share is deducted from the proceeds of the sale at closing, if sufficient funds are available, or is paid under RD Instruction 2024-A.

16.24 DOWN PAYMENT

When a down payment is made, it is collected at closing, identified by property identification number, purchaser's name and case number, and remitted in accordance with program instructions.

16.25 PAYMENT OF POINTS

When a buyer is financing the purchase of property with another lender, the Agency may pay not more than 3 points if it is a customary requirement of the lender for payment by the seller and points are not paid (or increased) to reduce the interest rate.

The specific number of points to be paid by the Agency must be in the sales contract, and fixed as of the date the Agency accepts the contract. Payment is deducted from the funds due the Agency at closing and is reflected in the Closing Disclosure.

16.26 CLOSING EXPENSES

Agency expenses are deducted from sale proceeds when sufficient funds are available, and the sale is subject to the Truth in Lending Act and Real Estate Settlement Procedures Act Integrated Mortgage Disclosures (TRID) requirements, that is, an Agency financed sale or a cash sale financed by another lender. Sales subject to TRID requirements, whether by the Agency or another lender, are settled by a third-party closing agent who provides a Closing Disclosure to the seller, buyer and lender to document the distribution of sale proceeds and closing costs. When sufficient funds are not available or when the transaction is a cash sale, which is not subject to TRID requirements and therefore no Closing Disclosure is required, expenses are paid under RD Instruction 2024-A.

In program-financed sales, bid deposit and earnest money is applied to the buyer's closing costs. Under a nonprogram credit sale, the buyer pays all closing costs.

16.27 COMMISSIONS

Commissions are paid at closing if there is sufficient cash from sale proceeds to cover the commission. If not, the Agency will pay the commission and charge it to the REO account as a recoverable cost.

16.28 TRANSFERRING TITLE

The Agency conveys the property to the buyer by Form RD 1955-49, Quitclaim Deed or other form of nonwarranty deed approved by OGC. The State Director or NFAOC signs the conveyance instrument, a copy of which is retained in the REO property case file. The buyer is responsible for recording the instrument.

16.29 REPORTING SALE

When the transaction is closed and the conveying instrument has been delivered, record disposition in the REO system. Real property which has been disposed of by means other than sale, including total loss or destruction, will also be reported in the REO System. Sale proceeds are forwarded to NFAOC to the General Fund.

ATTACHMENT 16-A

SAMPLE SOLICITATION PACKAGE

I. BROKER QUALIFICATIONS

- Financial capability.
- Licensing in the State in which broker will be doing business.

II. RANKING CRITERIA FOR SELECTING BROKERS

- Previous experience with REO properties.
- Membership in Multiple Listing Service (MLS).
- Advertising plans and proposed innovative promotion methods.
- Proximity to REO properties.
- Staffing commitment to sale of properties.
- Commission Rate. If a broker submits a bid with a commission rate that is significantly lower than other bids, detailed documentation will be provided attesting that they have successfully sold properties at the lower rates with no compromise in service.

ATTACHMENT 16-B

SAMPLE ADVERTISEMENT FOR BROKERS

Broker Solicitation: Advertisements for real estate broker services will be placed at least yearly in newspapers having general circulation in the area in which the property is located. The notice will usually be placed in both the residential property section and the public notice section, altered to describe whether the agreement is to be open or exclusive. An example follows.

Public Notice

Real Estate
Brokers

The Rural Housing Service (RHS) has from time to time various Real Estate Owned (REO) properties for sale through brokers having executed a listing agreement with the agency. Licensed real estate brokers may obtain additional information by writing or visiting the local RHS office located at 32 Penny Lane, Madison City, FL 32111 or telephoning (904) 323-0010.

EQUAL HOUSING
OPPORTUNITY

ATTACHMENT 16-C

NOTIFICATION OF AVAILABLE TRIBAL PROPERTY

Name of Tribe or Indian housing Authority
Name, Title of Contact Person
Address

RE:
Borrower Name: _____
Borrower Address: _____

Brief Legal Description of Security
Property:_____
_____

The above-named Rural Housing Service (RHS) single family housing borrower is in default on an Agency loan. The borrower may sell the property and RHS is authorized to transfer the account on program terms to an eligible member of the tribe who meets RHS program requirements, or on nonprogram terms to any eligible member of the tribe, the tribe, or the Indian housing authority servicing the tribe.

We are asking for your help on the borrower's behalf in locating a buyer for the property. If the borrower does not sell the property within a reasonable time, RHS may assign the promissory note and security instruments to the tribe or the Indian housing authority servicing the tribe.

Please let us know if you will be able to assist us in locating a buyer for the property or if you are interested in securing your interest in the property by buying the RHS promissory note and security instruments. Please contact me for further information.

CONTACT: _____

PHONE: _____

ATTACHMENT 16-D

SAMPLE ADVERTISEMENT OF AVAILABLE REO PROPERTIES

Regular Sale: Advertising is an essential marketing tool in sales by RHS personnel. Advertising will be accomplished by the appropriate servicing official in accordance with Section 1 of this chapter. Full and extensive use of advertising is recommended with the Agency having the discretion to develop creative and eye-appealing advertisements consistent with the real estate market and this handbook. Examples of advertisements are attached.

Example 1(A)

RHS

Investment Buy of the Month!

Price Slashed!

965 Della Street
Anytown, USA

Minimum Price: $25,000

This attractive frame house offers tremendous potential for the handyman who is looking for a great house at a great price.

Financing available on excellent terms.

5% down, 10 year, 10.5% APR to nonoccupant/investors

2% down, 30 year term, 10.5% APR to owner/occupants.

All rates and terms are subject to change without notice.

Contact RHS at 123-4567 or our Exclusive Broker "Ace Realty" at 123-9876.

EQUAL HOUSING OPPORTUNITY

Example 1(B)

RHS

Home of the Week

Price Slashed!

82 Town Street
Anytown, USA

Minimum Price: ~~$30,600~~

This charming three bedroom, 1 ½ bath cape cod is located in an attractive neighborhood close to town. This home has been repainted throughout, is in excellent condition and has new carpeting and appliances.

Financing available

To qualified RHS direct and guaranteed SFH loan applicants: nothing down, 33/38 year financing, 10% APR with payment assistance available to qualified applicants

To nonprogram applicants: 5% down, 10-year term, 10.5% APR to nonoccupants/investors.

2% down, 30-year term, 10.5% APR to owner/occupants.

All rates and terms are subject to change without notice.

Contact your local RHS Office at 123-4567 or any real estate broker.

EQUAL HOUSING OPPORTUNITY

Example 1(C)

RHS

Attractive RHS Homes for Sale

82 Town Street
Anytown, USA
Minimum Price: $32,000

Price Slashed!

46 Aim Street
Anytown, USA
Minimum Price: $29,000

22 Bee Street
Anytown, USA
Minimum Price: $35,000

Price Slashed!

35 Cat Street See note below
Anytown, USA
Minimum Price: $33,500

Financing Available on Excellent Terms!

To qualified RHS eligible direct or guaranteed SFH applicants applicants:
Nothing down, 33/38 year financing, 10% APR with Payment Assistance available to qualified applicants.

To nonprogram applicants:
5% down, 10 year term, 10.5% APR to nonoccupant/investors.

2% down, 30 year term, 10.5% APR to owner/occupants.

All rates and terms are subject to change without notice.

Contact your local RHS office at 123-4567 or any real estate broker.

EQUAL HOUSING OPPORTUNITY

Example 1(D)

RHS

Homes Priced to Sell

82 Town Street
Anytown, USA
Minimum Price: $32,000

Price Slashed!

46 Aim Street
Anytown, USA
Minimum Price: ~~$29,000~~ $26,500

22 Bee Street
Anytown, USA
Minimum Price: $35,000

Price Slashed!

35 Cat Street See note below
Anytown, USA
Minimum Price: ~~$33,500~~ $30,250

Financing Available on Excellent Terms!

To qualified RHS direct or guaranteed SFH loan applicants:
Nothing down, 33/38 year financing, 10% APR with

Payment assistance available to qualified applicants.

To nonprogram applicants:
5% down, 10 year term, 10.5% APR to

nonoccupant/investors.

2% down, 30 year term, 10.5% APR to

owner/occupants.

All rates and terms are subject to change without notice.

Contact your local RHS office at 123-4567 or any real

estate broker.

Note on 35 Cat Street: Available for cash or nonprogram terms only.

This property contains a dwelling unit which RHS has deemed inadequate for residential occupancy. The Quitclaim Deed by with the property will be conveyed will contain a covenant restricting the residential unit on the property from being used for residential occupancy until the dwelling is repaired, renovated, or razed. This restriction is imposed pursuant to section 510(e) of the Housing Act of 1949, as amended 42 U.S.C. 1480. Contact RHS or any Realtor for a list of items which must be repaired/renovated.

EQUAL HOUSING OPPORTUNITY

Sealed Bid and Auction Sales: Advertising of sealed bid and auction sales is critical for a successful sale. Advertising will be consistent with the portions of this handbook governing the sale of property by sealed bid or auction. Examples of sealed bid and auction sale advertisements are attached.

Example 2(A)

RHS

Sealed Bid Sale

Property Address: 123 14th Street, Anytown USA

The subject property has been extensively damaged by fire and requires major renovation or demolition. The lot contains 10,000 square feet, hookups to public water and sewage, and is suitable for reconstruction. Sealed bids will be accepted until Friday April 1, 1996 at 2:30 p.m. at which time all bids will be opened. The property will be sold to the highest bidder. All bids must be accompanied by a 5% bid deposit in the form of a certified check. Financing is available on Nonprogram terms only -- 5% down, 10.5% APR, and 10 year repayment (all rates and terms are subject to change without notice), however preference will be given for cash. The government reserves the right to reject any or all offers.

The property has been determined by RHS to be inadequate for residential occupancy. The Quitclaim Deed by which the property will be conveyed will contain a covenant restricting the residential unit on the property from being used for residential occupancy until the dwelling is repaired, renovated, or razed. This restriction is imposed pursuant to section 510(e) of the Housing Act of 1949, as amended 42 U.S.C. 1480. The structure must be razed, or reconstructed and a Certificate of Occupancy issued before the deed restriction can be removed.

For a bid package or further information, contact RHS at 123-4567 or visit our office at 1955 Main Street, Anytown.

EQUAL HOUSING OPPORTUNITY

Example 2(B)

RHS

Investment Properties for Sale

1955 Lois Lane
Anytown, USA
Minimum Price: $22,000

114 Maple Street
Anytown, USA
Minimum Price: $22,000

Financing Available

To Non program applicants:
5% down, 10 year term, 10.5% APR to nonoccupant/investors
2% down, 30 year term, 10.5% APR to owner/occupants.

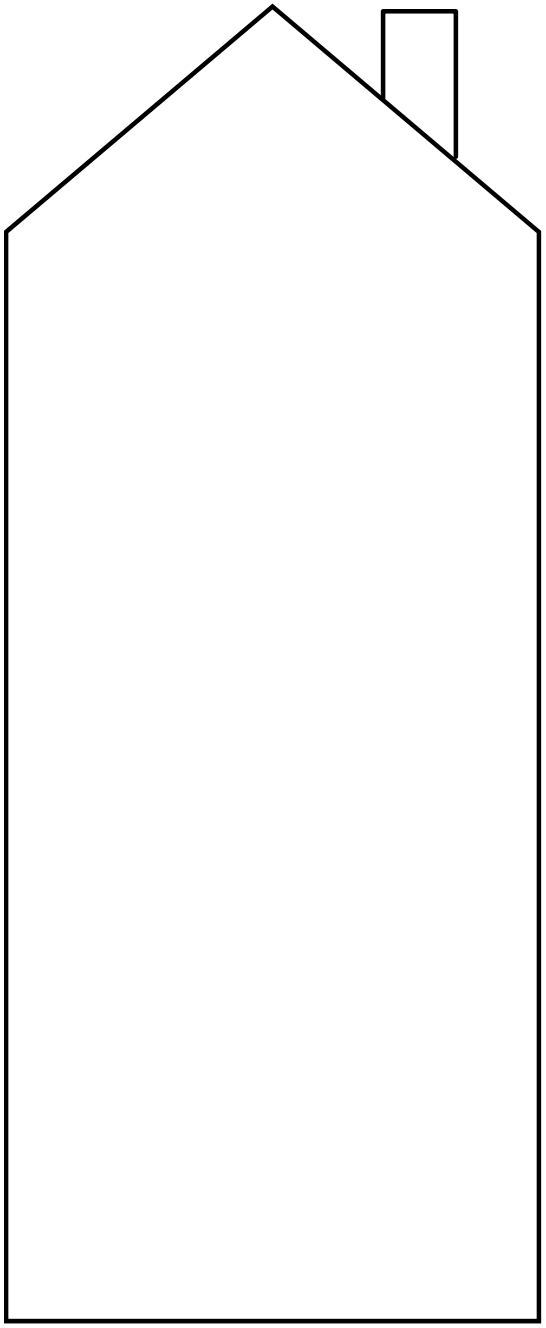
ALL RATES AND TERMS ARE SUBJECT TO CHANGE WITHOUT NOTICE.

Note: The property located at 114 Maple Street contains a dwelling unit which RHS has deemed inadequate for residential occupancy. The Quitclaim Deed by which the property will be conveyed will contain a covenant restricting the residential unit on the property from being used for residential occupancy until the dwelling is repaired, renovated, or razed. This restriction is imposed pursuant to section 510(e) of the Housing Act of 1949, as amended 42 U.S.C. 1480(e). Contact RHS or any realtor for a list of items which must be repaired/renovated.

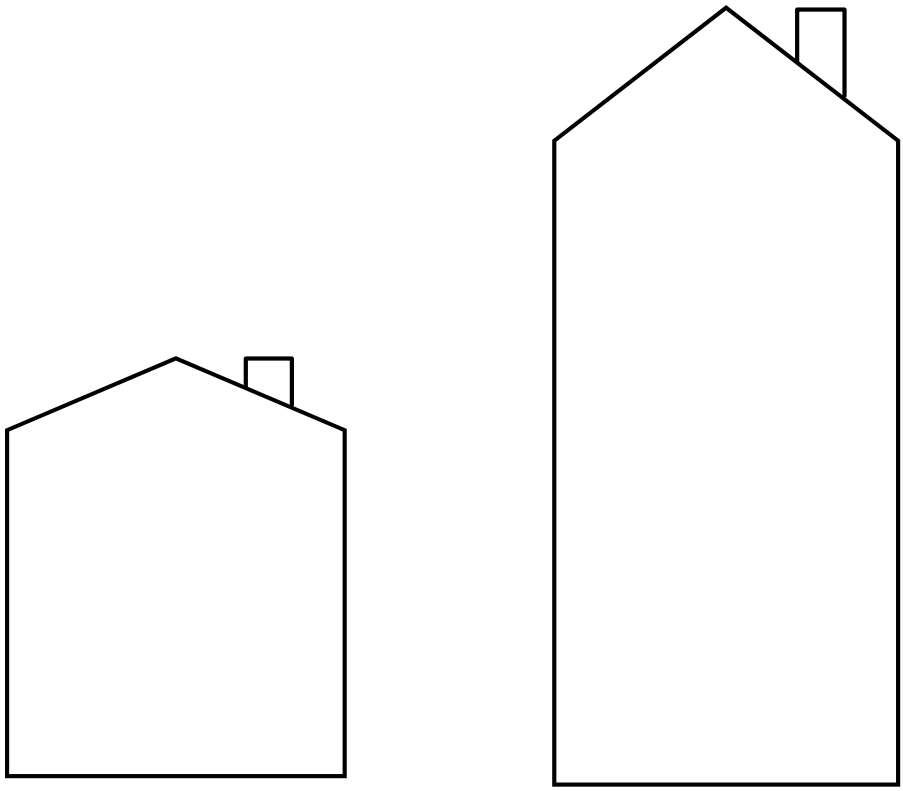
Contact your local RHS Office at 123-4567 or any real estate broker.

EQUAL HOUSING OPPORTUNITY

Templates for developing Advertisements



More Templates



Headings and logos for use with templates

Investment Properties for Sale

Financing Available

Investment Buy of the Month

Home of the Week

Sealed Bid Sale

Farm for Sale

Attractive USDA Homes for Sale

Homes Priced to Sell

Price Slashed!!!

Financing Available on Excellent Terms

Farm Property for Auction

All Rates and Terms Subject to Change without Notice

USDA Is An Equal Opportunity Lender

GLOSSARY

Acceleration. Demand for immediate repayment of the entire balance of a debt if the security instruments are breached.

Adjusted income. Used to determine whether an applicant is income-eligible. Adjusted income is based on annual income and provides for deductions to account for varying household circumstances and expenses.

Adjustment. An agreement to release a debtor from liability generally upon receipt of an initial lump sum representing the maximum amount the debtor can afford to pay and periodic additional payments over a period of up to 5 years.

Administrator. The official of the Rural Housing Service within the Rural Development mission area (or official of its successor agency) delegated authority by the Secretary of the U.S. Department of Agriculture to administer the Agency and its programs.

Adverse decision. An administrative decision made by an officer, employee or committee of the Agency that has a negative impact on the applicant or borrower.

Affordable Housing Product. Any form of participating funds which have limited restrictions and repayment terms. These can include subordinate liens, grants, silent mortgages, forgivable loans and community land trusts.

Agency. The Rural Housing Service within the Rural Development mission area of the U.S. Department of Agriculture or its successor agency, which administers Section 502 loans and Section 504 loans and grants.

Allowable excess costs. The cost of the appraisal fee, tax service fee, homeownership education fee, and initial contribution to the escrow account. These costs can be financed even if they cause the total loan amount to exceed the area loan limit or the property's market value.

Amortized payment. Equal monthly payments under a fully amortized mortgage loan that provides for the scheduled payment of principal and interest over the term of the loan.

Annual Income. Used to determine an applicant's eligibility for assistance. All amounts, monetary or not, of the applicant's household not specifically excluded by regulations, and amounts derived from assets any members of the family have access to.

Applicant. An adult member of the household who will be responsible for repayment of the loan.

Assumption. The procedure whereby the transferee becomes liable for all or part of the debt of the transferor. An assumption may be at the same rates and terms or at new rates and terms, depending on the circumstances.

Borrower. A recipient who is indebted under the Section 502 or 504 programs.

Cancellation. A decision to cease collection activities and release the debtor from personal liability for any remaining amounts owed.

Case File. A file established for each application to contain all documents used for loan origination.

Certificate of Eligibility. A document issued by the Agency to an applicant that confirms that the applicant is eligible for Agency assistance and shows the maximum loan amount for which the applicant qualifies.

Closing costs. Various fees required to conclude a real estate transaction.

Community land trust. A not-for-profit organization that acquires land and transfers it to eligible low- and moderate-income households, retaining for itself a pre-emptive option to purchase the land upon sale in order to transfer it to another low- or moderate-income household.

Compensating factors. Information that indicates that an applicant may be able to make larger regular loan payments than a ratio analysis indicates.

Compromise. An agreement to release a debtor from liability upon receipt of a specified lump sum that is less than the total amount due.

Conditional commitment. A determination that a proposed dwelling will qualify as a program-eligible property. The conditional commitment does not reserve funds, nor does it ensure that a program-eligible applicant will be available to buy the dwelling.

Consummation: An event that occurs when the consumer becomes contractually obligated to the creditor on the loan. Consummation is not the same as closing or settlement.

Cosigner. An individual or entity that joins in the execution of a promissory note to compensate for any deficiency in the applicant's repayment ability. The cosigner becomes jointly liable to comply with the terms of the promissory note in the event of the borrower's default, but is not entitled to any interest in the security or borrower rights.

Cross-collateralized loan. A situation in which a single property secures both Agency and Farm Service Agency (FSA) loans.

Custodial property. Borrower-owned real property that serves as security for a loan that has been taken into possession by the Agency to protect Government's interest.

Daily simple interest. A method of establishing borrower payments based on daily interest charged on the outstanding principal balance of the loan. Principal is reduced by the amount of payment in excess of the accrued interest.

Dealer-contractor. A person, firm, partnership, or corporation in the business of selling and servicing manufactured homes and developing sites for manufactured homes. A person, firm, partnership, or corporation not capable of providing the complete service is not eligible to be a dealer-contractor.

Debarment. A determination that a party is ineligible to participate in, or receive assistance under, the Agency's programs. A person who is debarred by another Agency also is ineligible.

Debt instrument. A collective term encompassing obligating documents for a loan, including any applicable promissory note, assumption agreement, or a grant agreement.

Debt settlement. Actions undertaken to collect at least a portion of debt owed to the Agency in conjunction with a voluntary liquidation, forced liquidation, or after the debt is fully matured. Debt settlement, when complete, closes the account.

Declaration page. A short form provided by an insurance company outlining pertinent information about an insurance policy, such as the insured party's name and address, amount of coverage, terms, and additional provisions.

Dedicated Loan Origination and Servicing System (DLOS). The overall automated system used by the Agency for originating and servicing loans, which includes UniFi and MortgageServ. It is designed to expedite loan making, standardize information collection and record keeping, and facilitate communication between the Field Office and NFAOC.

Deed in lieu of foreclosure. A method of liquidation by which title to the security property is conveyed to the Agency by the borrower.

Deficient housing. A dwelling that lacks complete plumbing; lacks adequate heating; is dilapidated or structurally unsound; has an overcrowding situation that will be corrected with loan funds; or that is otherwise uninhabitable, unsafe, or poses a health or environmental threat to the occupant or others.

Deficiency judgment. A personal judgment against a debtor for the amount remaining due after foreclosure.

Delinquency workout agreement. An agreement establishing a new repayment plan for a borrower who has delinquent Agency debt.

Do Not Pay (DNP) portal. The Presidential Memorandum dated June 18, 2010, on enhancing payment accuracy through a "Do Not Pay List" led to the creation of the Department of Treasury's DNP portal. The Improper Payments Elimination and Recovery Improvement Act of 2012 further intensified the effort to identify, prevent, and recover payment error, waste, fraud, and abuse within Federal spending by requiring that certain databases be reviewed prior to issuing any payment and award. For the direct single family housing programs, the following databases will be checked through the DNP portal: 1) Social Security Administration's Death Master File, 2) General Services Administration's Excluded Parties List System, 3) Department of the Treasury's Debt Check Database of the Department of the Treasury, and 4) Department of Housing and Urban Development's Credit Alert System. The DNP portal allows users to check the above databases using a single-entry point web-based application.

Draw schedule. A schedule of payments agreed to by the borrower, Agency and contractor under which the contractor will receive payments for work completed.

Due Diligence. The process of inquiring into the environmental condition of real estate in the context of a real estate transaction to determine the presence of contamination from hazardous substances, hazardous wastes, and petroleum products, and what impact such contamination may have on the market value of the property.

Easement. The legal right to use land, or a portion of land, owned by another for a limited purpose.

Elderly family. An elderly family consists of one of the following:

A. A person who is the head, spouse, or sole member of a family and who is 62 years of age or older, or who is disabled, and is an applicant or borrower; or

B. Two or more persons who are living together, at least one of whom is age 62 or older, or disabled, and who is an applicant or borrower; or

C. In the case of a family where the deceased borrower or spouse was at least 62 years old or disabled, surviving household members shall continue to be classified as an elderly family for the purpose of determining adjusted income, even though the surviving members may not meet the definition of elderly family on their own, provided:

    1. They occupied the dwelling with the deceased family member at the time of the death;

    2. If one of the surviving family members is the spouse of the deceased family member, the family shall be classified as an elderly family only until the remarriage of the surviving spouse; and

    3. At the time of the death of the deceased family member, the dwelling was financed under title V of the Housing Act of 1949.

Environmental review. An analysis of the potential for environmental impacts from a proposed action by the Agency and an examination of alternatives to avoid or minimize adverse impacts on the environment.

Equivalent interest rate (EIR). The interest rate charged by the Agency to program borrowers who receive payment assistance via method 1. The interest rate varies according to the borrower's income.

Escrow account. An account to which the borrower contributes monthly payments to cover the anticipated costs of real estate taxes, hazard and flood insurance premiums, and other related costs.

Existing dwelling or unit. A dwelling or unit that has either been previously owner-occupied or has been completed for more than 1-year as evidenced by an occupancy permit, certificate of occupancy or similar document issued by the local authority.

False information. Information that the recipient knew was incorrect or should have known was incorrect that was provided or omitted for the purposes of obtaining assistance for which the recipient was not eligible.

Fee simple ownership. A form of ownership under which the owner has absolute title to a piece of property.

Field Office. An Agency office that originates loans.

First-time homebuyer. Any individual who (and whose spouse) has had no present ownership in a principal residence during the 3-year period ending on the date of purchase of the property acquired with a Section 502 direct loan. A first-time homebuyer includes displaced homemakers and single parents even though they might have owned, or resided in a dwelling with a spouse.

Floor payment. A minimum amount that the borrower must pay for Principal, Interest, Taxes, and Insurance (PITI) when payment assistance method 1 is used. The payment amount is determined by the borrower's adjusted income, and its relation to the applicable adjusted median income in the area in which the security property is located.

Full-time student. A person who carries at least the minimum number of credit hours considered to be full-time by the college or vocational school in which the person is enrolled.

Hazard. A condition of the property that jeopardizes the health or safety of the occupants or members of the community, that does not make it unfit for habitation (see also the definition of major hazard).

Household. All persons expected to be living in the dwelling, except for live-in aids, foster children, and foster adults.

Housing Act of 1949, as amended. The Act which provides the authority for the direct single family housing programs. It is codified at 42 U.S.C. 1471, et seq.

HUD. The U.S. Department of Housing and Urban Development.

Inaccurate information. Incorrect information inadvertently provided, used, or omitted without intent to obtain benefits for which the applicant was not eligible.

Indian reservation. All land located within the limits of any Indian reservation under the jurisdiction of the United States notwithstanding the issuance of any patent and including rights-of-way running through the reservation; trust or restricted land located within the boundaries of a former reservation of a Federally recognized Indian tribe in the State of Oklahoma; or all Indian allotments, the titles to which have not been extinguished if such allotments are subject to the jurisdiction of a Federally recognized Indian tribe.

Interest credit. A payment subsidy available to certain eligible Section 502 borrowers that reduces the effective interest rate of the loan. Borrowers receiving interest credit will continue to receive it on all current and future loans for as long as they remain eligible for and continue to receive a subsidy. Borrowers who cease to be eligible for interest credit can never receive interest credit again, but may receive payment assistance method 2 if they again qualify for a payment subsidy.

Junior lien. A security instrument or a judgment against the security property to which the Agency debt instrument is superior.

Legal alien. For the purposes of these programs, legal alien refers to any person lawfully admitted to the country who meets the criteria in Section 214 of the Housing and Community Development Act of 1980, as amended, 42 U.S.C. 1436a.

Leveraged loan. An affordable housing product loan or grant to an Agency borrower property, closed simultaneously with an RHS loan. Affordable leveraged loans are characterized by long term (not less than 30 years), amortized payments with a note interest rate equal to or less than 3 percent.

Liquidation. A forced sale or voluntary disposition of the security property to obtain funds to repay outstanding debt. The proceeds from the sale are given to leinholders in order of priority, with any remaining funds returned to the borrower.

Live-in aide. A person who lives with an elderly person or disabled person and is essential to that person's care and well-being, not obligated for the person's support, and would not be living in the unit except to provide the support services.

Loan Approval Official. An Agency employee who has the authority to approve loans. Unless otherwise indicated, each State Director may determine which approval actions may be made by the Loan Approval Official, and which must come to the State Office for approval.

Loan docket. The legal documents and forms developed during loan origination that must be provided to NFAOC for servicing purposes.

Loan Originator. An Agency employee who works with the loan applicant, conducts the basic underwriting analysis, and makes the loan approval or credit denial recommendation to the Loan Approval Official.

Loan-to-Value (LTV) Ratio. LTV ratio is the relationship between the amount to be financed and the market value of the security property.

Lockbox. The service that receives and processes borrower payments.

Loss draft. A payment from an insurance company to a borrower to cover the borrower's adjusted losses due to damages covered under the insurance policy.

Low income. An adjusted income developed in consultation with HUD under 42 U.S.C. 1437a(b)(2)(D).

Major hazard. A condition so severe that it makes the property unfit for habitation. (See also the definition of hazard.)

Manufactured home. A structure that is built to Federally Manufactured Home Construction and Safety Standard (FMHCSS) and Agency Thermal Performance Standards (TPS). It is transportable in one or more sections, which in the traveling mode is 10-body feet (3.048 meters) or more in width, and when erected on site is 400 or more square feet (37.16 square meters), and which is built on a permanent chassis and designed to be used as a dwelling with or without a permanent foundation when connected to the required utilities. It is designed and constructed for permanent occupancy by a single family and contains permanent eating, cooking, sleeping, and sanitary facilities. The plumbing, heating, and electrical systems are contained in the structure. A permanent foundation is required.

Market value. The value of the property as determined by a current appraisal; the Agency may authorize the use of a Broker's Price Opinion (BPO) or similar instrument to determine market value in limited servicing situations.

Metropolitan Statistical Area (MSA). MSA is a county or group of counties of 50,000 people or more, or "twin cities" with a combined population of at least 50,000. In addition to the county containing such a city, contiguous counties are included in a metro area according to commuting patterns. In New England states, metro areas consist of towns and cities instead of counties, otherwise the rules are similar.

Mineral lease. A granting of rights to a third party to mine, drill or otherwise access oil, gas or other valuable natural resources on a property.

Mobile home. A manufactured unit often referred to as a "trailer," designed to be used as a dwelling, but built prior to the enactment of Pub. L. 96-399 (October 8, 1980).

Moderate income. An adjusted income that does not exceed the moderate income limit for the guaranteed single family housing loan program authorized by Section 502(h) of the Housing Act of 1949, as amended.

Modest housing. A property that is considered modest for the area, with a market value that does not exceed the applicable area loan limit as established by RHS in accordance with §3550.63. In addition, the property must not be designed for income producing activities nor have an in ground swimming pool.

Modular or panelized home. Housing, constructed of one or more factory-built sections or panels which, when completed, meets or exceed the requirements of the recognized development standards (model building codes) for site-built housing, and which is designed to be permanently connected to a site-built foundation.

Moratorium. A period of up to two years during which scheduled payments for principal, interest and deposits to the escrow account are not required, but are subject to repayment at a later date.

Mortgage. A form of security instrument or consensual lien on real property including a real estate mortgage or deed of trust.

MortgageServ. The mainframe-based computer application that is used by the Field Office to electronically communicate with, and transmit information to NFAOC, and by NFAOC to service and track a borrower's loan.

National Appeals Division (NAD). The organization within the United States Department of Agriculture that is responsible for the Department's administrative appeals procedures which must be followed by participants who desire to appeal an adverse decision made by the Agency.

National Financial and Accounting Operations Center (NFAOC). The Agency branch located in St. Louis, Missouri that is responsible for servicing Section 502 and 504 loans.

National Office. The headquarters of the Agency located in Washington, DC where the Administrator's office and the national policy-making staff are located.

Net family assets. The value of assets are available to a household that could be used towards housing costs. Net family assets are considered in the calculation of annual income and are used to determine whether the household must make additional cash contributions to improve or purchase the property.

Net recovery value. The market value of the security property minus anticipated expenses of liquidation, acquisition, and sale as determined by the Agency.

New dwelling or unit. A dwelling that is to be constructed, or a dwelling that is less than one year old as evidenced by an occupancy permit, certificate of occupancy or similar document issued by the local authority and has never been occupied.

New rates and terms assumption. A transfer of Agency debt whereby a new borrower agrees to take responsibility for repaying the debt of an existing Agency borrower according to a new amortization schedule.

Nonprogram interest rate. The interest rate offered by the Agency for loans made on nonprogram terms.

Nonprogram property. Property that does not meet the program's requirements.

Nonprogram terms. Credit terms available from the Agency when the applicant or property is not program-eligible.

Note only loan. See "unsecured loan."

Note rate. See "promissory note rate."

Offset. Deductions to pay a debt owed to the Agency from a borrower's retirement benefits, salary, income tax refund, or payments from other Federal agencies to the borrower. Deductions from retirement benefits and salary generally apply only to current and former Federal employees.

Overcrowding. An occupancy situation in which a household has more than 2 people per bedroom.

Packager. An individual or organization that assembles and prescreens application packages.

Partial release of security. An action by the Agency under which it releases a portion of the security property from the security instrument.

Participant. For the purpose of reviews and appeals, a participant is any individual or entity who has applied for or whose right to participate in or receive a payment, loan, or other benefit is affected by an Agency decision.

Payment assistance. A payment subsidy available to eligible Section 502 borrowers that reduces the effective interest rate of a loan.

Payment shock. A term representing the applicant's projected increase in housing expenses.

Payment subsidy. A general term for subsidies which reduce the borrower's scheduled payment. It refers to either payment assistance method 1 or 2, or interest credit.

Person with a disability. Any person who has a physical or mental impairment that substantially limits on or more major life activities, including functions such as caring for one's self, performing manual tasks, walking, seeing, hearing, speaking, breathing, learning and working; has a record of such an impairment; or is regarded as having such an impairment.

PITI ratio. The amount paid by the borrower for principal, interest, taxes, and insurance, divided by repayment income.

Preliminary Application (Pre-Ap). A general term which includes the required information to complete the pre-qualification process.

Principal reduction attributable to subsidy (PRAS). Accelerated principal reduction that may occur when a borrower receives a reduced interest rate through interest credit assistance.

Prior lien. A security instrument or a judgment against the security property that is superior to the Agency's debt instrument.

Program-eligible applicant. Any applicant meeting the eligibility requirements of the Section 502 or Section 504 programs.

Program-eligible property. A property eligible to be financed under the Section 502 or Section 504 programs.

Program terms. Credit terms that are available only to program-eligible applicants for program-eligible properties.

Promissory note rate. The unsubsidized interest rate offered by the Agency for loans made on program terms.

Property. The land, dwelling, and related facilities for which the applicant will use Agency assistance.

Protective advances. Costs incurred by the Agency to protect the security interest of the Government that are charged to the borrower's account.

Real Estate Owned (REO). Property for which the Agency holds title (formerly known by the Agency as "inventory property").

Real estate taxes. Taxes and the annual portion of assessments estimated to be due and payable on the property, reduced by any available tax exemption.

Reamortization. The establishment of a new, revised schedule of equal monthly payments of principal and interest over the remaining term of a mortgage loan.

Recapture amount. An amount of subsidy to be repaid by the borrower upon disposition or nonoccupancy of the property.

Recipient. An individual who has received an Agency loan or grant.

Refinancing with private credit. An Agency requirement under which program borrowers who appear to qualify for private credit must seek such credit (formerly known by the Agency as "graduation").

Repayment income. Used to determine whether an applicant has the ability to make monthly loan payments. Repayment income is based only on the income attributable to parties to the note and includes some income sources excluded for the purpose of adjusted income.

Rural area. An area defined in section 520 of the Housing Act of 1949, as amended.

Same rates and terms assumption. A transfer of Agency debt whereby a new party agrees to continue to repay the debt of the initial borrower according to the same amortization schedule.

Scheduled payment. The monthly or annual installment on a promissory note plus escrow (if required), as modified by any payment subsidy agreement, delinquency workout agreement. other documented agreements between the Agency and the borrower, or protective advances.

Secured loan. A loan that is collateralized by property so that in the event of a default on the loan, the property may be sold to satisfy the debt (see also "unsecured loan").

Security instrument. The written instrument that legally records the Agency's security interest in the property.

Security property. All the property that serves as collateral for an Agency loan.

Special Flood Hazard Area (SFHA). An area having special flood, mudslide and/or flood related erosion hazards as shown on Federal Emergency Management Agency (FEMA) floodplain maps.

State Director. The highest Agency decision making official at the State level.

State Supplement. Additional guidance provided by the State Director when State, local or tribal laws affect how Agency requirements are implemented in a particular State.

Subordination. Moving a lien position to a lower priority.

Subsequent loans. Additional Agency credit that is extended to an existing program borrower.

Subsidy. Interest credit, payment assistance method 1, payment assistance method 2, or deferred mortgage assistance received by a borrower under the Section 502 program.

Subsidy repayment agreement. An agreement under which a borrower agrees to repay to the Agency any subsidy received under the Section 502 program upon disposition or nonoccupancy of the security property.

Supervised funds. Funds deposited in an Agency supervised bank account on behalf of a borrower.

Tax service. A contractor hired by the Agency to secure tax information about borrower properties.

Total debt ratio. The amount paid by the borrower for principal, interest, taxes, and insurance and any recurring monthly debt, divided by repayment income.

Tribal allotted land. Tribal land allotted to individual tribal members which is held in trust.

Tribe. Any Federally-recognized tribe, band, pueblo, group, community, or nation of Indians or Alaska natives.

Trust land. Land held in trust by the United States on behalf of an Indian tribe.

Unauthorized assistance. Any loan, payment subsidy, deferred mortgage payment, or grant for which there was no regulatory authorization or for which the recipient was not eligible.

UniFi. A personal computer-based application located in each Field Office that is used by Loan Originators. It retains applicant information, calculates maximum loan amounts, and generates loan approval and closing forms.

United States (U.S.) citizen. An individual who resides as a U.S. citizen in any of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Marinas, the Federated States of Micronesia, the Republic of Palau, or the Republic of the Marshall Islands.

Unsecured loan. A loan, also known as a "note only loan," evidenced only by the borrower's promissory note (see also "secured loan").

Very low income. An adjusted income limit developed in consultation with HUD under 42 U.S.C. 1437a(b)(2)(D)..

Veterans preference. A preference extended to any person applying for a loan or grant under the Section 502 or Section 504 programs who was honorably discharged or released on conditions other than dishonorable conduct from the active forces of the United States Army, Navy, Air Force, Marine Corps, or Coast Guard and who served in active duty during one of the following periods:

A. April 6, 1917 through March 31, 1921;

B. December 7, 1941 through December 31, 1946;

C. June 27, 1950 through January 31, 1955;

D. A period of more than 180 days, any part of which occurred after January 31, 1955, but on or before May 7, 1975; or

E. During the period beginning August 2, 1990, and ending the date prescribed by Presidential Proclamation or law.

The family of a service person who died in service during any of the periods listed above is also extended the preference.

ACRONYMS USED IN THIS HANDBOOK

ACE	Active Corps of Executives
ADR	Alternative Dispute Resolution
ARM	Adjusted Rate Mortgage
BPA	Blank Purchase Agreement
CO	Contracting Officer
CBMC	Community-Based Mediation Center
CBRA	Coastal Barrier Resources Act
CBRS	Coastal Barrier Resources System
CFPB	Consumer Financial Protection Bureau
CFR	Code of Federal Regulations
COLA	Cost of Living Adjustment
COR	Contracting Officer Representative
CRA	Community Reinvestment Act
DLOS	Dedicated Loan Origination and Servicing System
DNP	Do Not Pay portal
DSS	Decent, Safe, and Sanitary

EA	Environmental Assessment
ECOA	Equal Credit Opportunity Act
EIR	Equivalent Interest Rate
EIS	Environmental Impact Statement
EPA	Environmental Protection Agency
FEMA	Federal Emergency Management Agency
FHA	Federal Housing Administration
FMHCSS	Federal Manufactured Home Construction and Safety Standards
GRH	Guaranteed Rural Housing
HHS	Health and Human Services
HUD	Department of Housing and Urban Development
INA	Immigration and Nationality Act
IRA	Individual Retirement Account
IRS	Internal Revenue Service
LTV	Loan-to-Value Ratio
MCC	Mortgage Credit Certificates
MLS	Multiple Listing Service
MSA	Metropolitan Statistical Area
NAD	National Appeals Division
NEPA	National Environmental Policy Act

NFAOC	National Financial and Accounting Operations Center
NFIP	National Flood Insurance Program
NRCS	Natural Resources Conservation Service
NWA	NeighborWorks America
NFHC	National Federation of Housing Counselors
NAIHC	National American Indian Housing Council
NOFA	Notice of Funding Availability
OGC	Office of General Counsel
OIG	Office of Inspector General
PI	Principal and Interest
PITI	Principal, Interest, Taxes, and Insurance
PUD	Planned Unit Development
RD	Rural Development
REO	Real Estate Owned
RESPA	Real Estate and Settlement Procedures Act
RH	Rural Housing
RHS	Rural Housing Service
SBA	Small Business Administration
SCORE	Service Corps of Retired Executives
SF	Standard Form
SFH	Single Family Housing

SFHA	Special Flood Hazard Area
SHFA	State Housing Finance Agency
SHPO	State Historic Preservation Officer
SPM	Servicing and Property Management
SOW	Statement of Work
TD	Total Debt
TDD	Telecommunications Device for the Deaf
TMCR	Tri-Merge Credit Report
TRID	Truth in Lending Act and Real Estate Settlement Procedures Act Integrated Mortgage Disclosures
TSR	Title Status Report
TSQ	Transaction Screen Questionnaire
U.S.C.	United States Code
USPAP	Uniform Standards of Professional Appraisal Practice
USDA	United States Department of Agriculture
USFWS	U.S. Fish and Wildlife Service
VA	Department of Veterans Affairs
VISTA	Volunteers in Service to America
WWD	Water and Waste Disposal

Appendix 1
7 CFR PART 3550 - DIRECT SINGLE FAMILY HOUSING LOANS AND GRANTS

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7 CFR PART 3550 - DIRECT SINGLE FAMILY HOUSING LOANS AND GRANTS

Subpart A - General

§ 3550.1 Applicability.

This part sets forth policies for the direct single family housing loan programs operated by the Rural Housing Service (RHS) of the U.S. Department of Agriculture (USDA). It addresses the requirements of sections 502 and 504 of the Housing Act of 1949, as amended, and includes policies regarding both loan and grant origination and servicing. Procedures for implementing these regulations can be found in program handbooks, available in any Rural Development office. Any provision on the expenditure of funds under this part is contingent upon the availability of funds.

§ 3550.2 Purpose.

The purpose of the direct RHS single family housing loan programs is to provide low- and very low-income people who will live in rural areas with an opportunity to own adequate but modest, decent, safe, and sanitary dwellings and related facilities. The section 502 program offers persons who do not currently own adequate housing, and who cannot obtain other credit, the opportunity to acquire, build, rehabilitate, improve, or relocate dwellings in rural areas. The section 504 program offers loans to very low-income homeowners who cannot obtain other credit to repair or rehabilitate their properties. The section 504 program also offers grants to homeowners age 62 or older who cannot obtain a loan to correct health and safety hazards or to make the unit accessible to household members with disabilities.

§ 3550.3 Civil rights.

RHS will administer its programs fairly, and in accordance with both the letter and the spirit of all equal opportunity and fair housing legislation and applicable executive orders. Loans, grants, services, and benefits provided under this part shall not be denied to any person based on race, color, national origin, sex, religion, marital status, familial status, age, physical or mental disability, receipt of income from public assistance, or because the applicant has, in good faith, exercised any right under the Consumer Credit Protection Act (15 U.S.C. 1601 et seq.). All activities under this part shall be accomplished in accordance with the Fair Housing Act (42 U.S.C. 3601-3620), Executive Order 11246, and Executive Order 11063, as amended by Executive Order 12259, as applicable. The civil rights compliance requirements for RHS are in 7 CFR part 1901, subpart E. The nondicrimination requirements also originate from the Equal Credit Opportunity Act (ECOA), 15 USC 1601 as amended and its Regulation B, 12 CFR 202, as amended.

§ 3550.4 Reviews and appeals.

Whenever RHS makes a decision that is adverse to a participant, RHS will provide the participant with written notice of such adverse decision and the participant's rights to a USDA National Appeals Division hearing in accordance with 7 CFR part 11. Any adverse decision, whether appealable or non-appealable may be reviewed by the next-level RHS supervisor.

§ 3550.5 Environmental requirements.

(a) Policy. RHS will consider environmental quality as equal with economic, social, and other relevant factors in program development and decision-making processes. RHS will take into account potential environmental impacts of proposed projects by working with RHS applicants, other federal agencies, Indian tribes, State and local governments, and interested citizens and organizations in order to formulate actions that advance the program's goals in a manner that will protect, enhance, and restore environmental quality.

(b) Regulatory references. Processing or servicing actions taken under this part must comply with the environmental review requirements in accordance with 7 CFR part 1970, and 7 CFR part 1924, which addresses lead-based paint.

§ 3550.6 State law or state supplement.

State and local laws and regulations, and the laws of federally recognized Indian tribes, may affect RHS implementation of certain provisions of this regulation, for example, with respect to the treatment of liens, construction, or environmental policies. Supplemental guidance may be issued in the case of any conflict or significant differences.

§ 3550.7 Demonstration programs.

From time to time, RHS may authorize limited demonstration programs. The purpose of these demonstration programs is to test new approaches to offering housing under the statutory authority granted to the Secretary. Therefore, such demonstration programs may not be consistent with some of the provisions contained in this part. However, any program requirements that are statutory will remain in effect. Demonstration programs will be clearly identified as such.

§ 3550.8 Exception authority.

An RHS official may request, and the Administrator or designee may make, an exception to any requirement or provision of this part or address any omission of this part that is consistent with the applicable statute if the Administrator determines that application of the requirement or provision, or failure to take action in the case of an omission, would adversely affect the Government's interest.

§ 3550.9 Conflict of interest.

(a) Objective. It is the objective of RHS to maintain the highest standards of honesty, integrity, and impartiality by employees. To reduce the potential for employee conflict of interest, all processing, approval, servicing, or review activity will be conducted in accordance with 7 CFR part 1900, subpart D by RHS employees who:

(1) Are not themselves the applicant or borrower;

(2) Are not members of the family or close known relatives of the applicant or borrower;

(3) Do not have an immediate working relationship with the applicant or borrower, the employee related to the applicant or borrower, or the employee who would normally conduct the activity; or

(4) Do not have a business or close personal association with the applicant or borrower.

(b) Applicant or borrower responsibility. The applicant or borrower must disclose any known relationship or association with an RHS employee when such information is requested.

(c) RHS employee responsibility. An RHS employee must disclose any known relationship or association with a recipient, regardless of whether the relationship or association is known to others. RHS employees or members of their families may not purchase a Real Estate Owned (REO) property, security property from a borrower, or security property at a foreclosure sale. Loan closing agents who have been involved with a particular property, as well as members of their families, are also precluded from purchasing such properties.

§ 3550.10 Definitions.

Acceleration. Demand for immediate repayment of the entire balance of a debt if the security instruments are breached.

Adjusted income. Used to determine whether an applicant is income-eligible. Adjusted income provides for deductions to account for varying household circumstances and expenses. See § 3550.54 for a complete description of adjusted income.

Adjustment. An agreement to release a debtor from liability generally upon receipt of an initial lump sum representing the maximum amount the debtor can afford to pay and periodic additional payments over a period of up to 5 years.

Agency-approved intermediary. An affordable housing nonprofit, public agency, or State Housing Finance Agency approved by RHS to perform quality assurance reviews on packages prepared by Agency-certified loan application packagers through their qualified employers. See § 3550.75 for further details.

Agency-certified loan application packager. An individual certified by RHS under this subpart to package section 502 loan applications while employed (either as an employee or as an independent contractor) by a qualified employer. See § 3550.75 for further details.

Amortized payment. Equal monthly payments under a fully amortized mortgage loan that provides for the scheduled payment of interest and principal over the term of the loan.

Applicant. An adult member of the household who will be responsible for repayment of the loan.

Assumption. The procedure whereby the transferee becomes liable for all or part of the debt of the transferor.

Borrower. A recipient who is indebted under the section 502 or 504 programs.

Cancellation. A decision to cease collection activities and release the debtor from personal liability for any remaining amounts owed.

Compromise. An agreement to release a debtor from liability upon receipt of a specified lump sum that is less than the total amount due.

Conditional commitment. A determination that a proposed dwelling will qualify as a program-eligible property. The conditional commitment does not reserve funds, nor does it ensure that a program-eligible applicant will be available to buy the dwelling.

Cosigner. An individual or an entity that joins in the execution of a promissory note to compensate for any deficiency in the applicant's repayment ability. The cosigner becomes jointly liable to comply with the terms of the promissory note in the event of the borrower's default, but is not entitled to any interest in the security or borrower rights.

Cross-collateralized loan. A situation in which a single property secures both RHS and Farm Service Agency loans.

Custodial property. Borrower-owned real property that serves as security for a loan that has been taken into possession by the Agency to protect the Government’s interest.

Daily simple interest. A method of establishing borrower payments based on daily interest charged on the outstanding principal balance of the loan. Principal is reduced by the amount of payment in excess of the accrued interest.

Dealer-contractor. A person, firm, partnership, or corporation in the business of selling and servicing manufactured homes and developing sites for manufactured homes. A person, firm, partnership, or corporation not capable of providing the complete service is not eligible to be a dealer-contractor.

Debt instrument. A collective term encompassing obligating documents for a loan, including any applicable promissory note, assumption agreement, or grant agreement.

Deferred mortgage payments. A subsidy available to eligible, very low-income borrowers of up to 25 percent of their principal and interest payments at 1 percent for up to 15 years. The deferred amounts are subject to recapture on sale or nonoccupancy.

Deficient housing. A dwelling that lacks complete plumbing; lacks adequate heating; is dilapidated or structurally unsound; has an overcrowding situation that will be corrected with loan funds; or that is otherwise uninhabitable, unsafe, or poses a health or environmental threat to the occupant or others.

Elderly family. An elderly family consists of one of the following:

(1) A person who is the head, spouse, or sole member of a family and who is 62 years of age or older, or who is disabled, and is an applicant or borrower;

(2) Two or more persons who are living together, at least 1 of whom is age 62 or older, or disabled, and who is an applicant or borrower; or

(3) In the case of a family where the deceased borrower or spouse was at least 62 years old or disabled, the surviving household member shall continue to be classified as an elderly family for the purpose of determining adjusted income, even though the surviving members may not meet the definition of elderly family on their own, *provided*:

(i) They occupied the dwelling with the deceased family member at the time of the death;

(ii) If one of the surviving family members is the spouse of the deceased family member, the family shall be classified as an elderly family only until the remarriage of the surviving spouse; and

(iii) At the time of the death of the deceased family member, the dwelling was financed under title V of the Housing Act of 1949, as amended.

Escrow account. An account to which the borrower contributes monthly payments to cover the anticipated costs of real estate taxes, hazard and flood insurance premiums, and other related costs.

Existing dwelling or unit. A dwelling that has either been previously owner-occupied or has been completed for more than 1 year as evidenced by an occupancy permit, certificate of occupancy or similar document issued by the local authority.

False information. Information that the recipient knew was incorrect or should have known was incorrect that was provided or omitted for the purposes of obtaining assistance for which the recipient was not eligible.

Full-time student. A person who carries at least the minimum number of credit hours considered to be full-time by college or vocational school in which the person is enrolled.

Hazard. A condition of the property that jeopardizes the health or safety of the occupants or members of the community, that does not make it unfit for habitation. (See also the definition of major hazard in this section.)

Household. All persons expected to be living in the dwelling, except for live-in aids, foster children, and foster adults.

Housing Act of 1949, as amended. The Act which provides the authority for the direct single family housing programs. It is codified at 42 U.S.C. 1471, et seq.

HUD. The U.S. Department of Housing and Urban Development.

Inaccurate information. Incorrect information inadvertently provided, used, or omitted without the intent to obtain benefits for which the recipient was not eligible.

Indian reservation. All land located within the limits of any Indian reservation under the jurisdiction of the United States notwithstanding the issuance of any patent and including rights-of-way running through the reservation; trust or restricted land located within the boundaries of a former reservation of a federally recognized Indian tribe in the State of Oklahoma; or all Indian allotments, the titles to which have not been extinguished, if such allotments are subject to the jurisdiction of a federally recognized Indian tribe.

Interest credit. A payment subsidy available to certain eligible section 502 borrowers that reduces the effective interest rate of a loan (see § 3550.68(d)). Borrowers receiving interest credit will continue to receive it on all current and future loans for as long as they remain eligible for and continue to receive a subsidy. Borrowers who cease to be eligible for interest credit can never receive interest credit again, but may receive payment assistance if they again qualify for a payment subsidy.

Junior lien. A security instrument or a judgment against the security property to which the RHS debt instrument is superior.

Legal alien. For the purposes of this part, legal alien refers to any person lawfully admitted to the country who meets the criteria in section 214 of the Housing and Community Development Act of 1980, 42 U.S.C. 1436a.

Leveraged loan. An affordable housing product loan or grant to an Agency borrower property, closed simultaneously with an RHS loan. Affordable leveraged loans are characterized by long term (not less than 30 years), amortized payments with a note interest rate equal to or less than 3 percent.

Live-in aide. A person who lives with an elderly or disabled person and is essential to that person's care and well-being, not obligated for the person's support, and would not be living in the unit except to provide the support services.

Low income. An adjusted income limit developed in consultation with HUD under 42 U.S.C. 1437a(b)(2)(D).

Major hazard. A condition so severe that it makes the property unfit for habitation. (See also the definition of hazard in this section.)

Manufactured home. A structure that is built to Federally Manufactured Home Construction and Safety Standards and RHS Thermal Performance Standards. It is transportable in 1 or more sections, which in the traveling mode is 10-body feet (3.048 meters) or more in width, and when erected on site is 400 or more square feet (37.16 square meters), and which is built on a permanent chassis and designed to be used as a dwelling with or without a permanent foundation when connected to the required utilities. It is designed and constructed for permanent occupancy by a single family and contains permanent eating, cooking, sleeping, and sanitary facilities. The plumbing, heating, and electrical systems are contained in the structure. A permanent foundation is required.

Market value. The value of the property as determined by a current appraisal, RHS may authorize the use of a Broker's Price Opinion or similar instrument to determine market value in limited servicing situations.

Mobile home. A manufactured unit often referred to as a "trailer," designed to be used as a dwelling, but built prior to the enactment of the Housing and Community Development Act of 1980 (Pub. L. 96-399) enacted October 8, 1980.

Moderate income. An adjusted income that does not exceed the moderate income limit for the guaranteed single family housing loan program authorized by Section 502(h) of the Housing Act of 1949, as amended.

Modest housing. A property that is considered modest for the area, with a market value that does not exceed the applicable maximum loan limit as established by RHS in accordance with §3550.63. In addition, the property must not be designed for income producing activities nor have an in-ground swimming pool.

Modular or panelized home. Housing, constructed of one or more factory-built sections or panels, which, when completed, meets or exceed the requirements of the recognized development standards (model building codes) for site built housing, and which is designed to be permanently connected to a site-built foundation.

Moratorium. A period of up to 2 years during which scheduled payments are not required, but are subject to repayment at a later date.

Mortgage. A form of security instrument or consensual lien on real property including a real estate mortgage or a deed of trust.

National average area loan limit. Across the nation, the average area loan limit as specified in § 3550.63 (a). The national average is considered when determining the maximum packaging fee permitted under the certified loan application packaging process under the section 502 program.

Net family assets. The value of assets available to a household that could be used towards housing costs. Net family assets are considered in the calculation of annual income and are used to determine whether the household must make additional cash contributions to improve or purchase the property.

Net recovery value. The market value of the security property minus anticipated expenses of liquidation, acquisition, and sale as determined by RHS.

New dwelling or unit. A dwelling that is to be constructed, or a dwelling that is less than 1 year old as evidenced by an occupancy permit, certificate of occupancy or similar document issued by the local authority and has never been occupied.

Nonprogram (NP) interest rate. The interest rate offered by RHS for loans made on NP terms.

NP property. Property that does not meet the program eligibility requirements outlined in §§ 3550.56 and 3550.57.

NP terms. Credit terms available from RHS when the applicant or property is not program-eligible.

Offset. Deductions to pay a debt owed to RHS from a borrower's retirement benefits, salary, income tax refund, or payments from other federal agencies to the borrower. Deductions from retirement benefits and salary generally apply only to current and former federal employees.

Participant. For the purpose of reviews and appeals, a participant is any individual or entity who has applied for, or whose right to participate in or receive a payment, loan, or other benefit is affected by an RHS decision.

Payment assistance. A payment subsidy available to eligible section 502 borrowers that reduces the effective interest rate of a loan (see § 3550.68(c)). Borrowers eligible for a payment subsidy receive payment assistance unless they are currently eligible for and receive interest credit. There are two methods of payment assistance. Payment Assistance Method 1 is found at §3550.68(c)(2). Payment Assistance Method 2 is found at §3550.68(c)(1).

Payment subsidy. A general term for subsidies which reduce the borrower's scheduled payment. It refers to either payment assistance or interest credit.

Person with disability. Any person who has a physical or mental impairment that substantially limits one or more major life activities, including functions such as caring for one's self, performing manual tasks, walking, seeing, hearing, speaking, breathing, learning and working, has a record of such an impairment, or is regarded as having such an impairment.

PITI ratio. The amount paid by the borrower for principal, interest, taxes, and insurance (PITI), divided by repayment income.

Principal reduction attributed to subsidy (PRAS). Accelerated principal reduction that can occur when a borrower receives a reduced interest rate through a payment subsidy.

Prior lien. A security instrument or a judgment against the security property that is superior to the RHS debt instrument.

Program-eligible applicant. Any applicant meeting the eligibility requirements described in §3550.53.

Program-eligible property. A property eligible to be financed under this part, as determined by the criteria listed in §§3550.56 through 3550.59.

Program terms. Credit terms that are available only to program-eligible applicants for program-eligible properties.

Property. The land, dwelling, and related facilities for which the applicant will use RHS assistance.

Protective advances. Costs incurred by the Agency to protect the security interest of the Government that are charged to the borrower's account.

Qualified employer. An affordable housing nonprofit organization, public agency, tribal housing authority, or State Housing Finance Agency that meets the requirements outlined in § 3550.75 (b)(2) and is involved in the certified loan application packaging process under the section 502 program.

Real estate taxes. Taxes and the annual portion of assessments estimated to be due and payable on the property, reduced by any available tax exemption.

Recapture amount. An amount of subsidy to be repaid by the borrower upon disposition or nonoccupancy of the property.

Recipient. Any applicant, borrower, or grant recipient who applies for or receives assistance under the section 502 or 504 programs.

REO. The acronym for "Real Estate Owned." It refers to property for which RHS holds title.

Repayment income. Used to determine whether an applicant has the ability to make monthly loan payments. Repayment income includes amounts excluded for the purpose of determining adjusted income. See § 3550.54 for a complete description.

RHS. The Rural Housing Service of the U.S. Department of Agriculture, or its successor agency, formerly the Rural Housing and Community Development Service (RHCDS), a successor agency to the Farmers Home Administration (FmHA).

RHS employee. Any employee of RHS, or any employee of the Rural Development mission area who carries out grant or loan origination or servicing functions for the section 502 or 504 programs.

RHS interest rate. The unsubsidized interest rate offered by RHS for loans made on program terms.

Rural area: An area defined in section 520 of the Housing Act of 1949, as amended.

Rural Development. A mission area within USDA which includes RHS, Rural Utilities Service (RUS), and Rural Business-Cooperative Service (RBS).

Scheduled payment. The monthly or annual installment on a promissory note plus escrow (if required), as modified by any payment subsidy agreement, delinquency workout agreement, other documented agreements between RHS and the borrower, or protective advances.

Secured loan. A loan that is collateralized by property so that in the event of a default on the loan, the property may be sold to satisfy the debt.

Security property. All the property that serves as collateral for an RHS loan.

Subsidy. Interest credit, payment assistance, or deferred mortgage assistance received by a borrower under the section 502 or 504 programs.

Total debt ratio. The amount paid by the borrower for PITI and any recurring monthly debt, divided by repayment income.

Unauthorized assistance. Any loan, payment subsidy, deferred mortgage payment, or grant for which there was no regulatory authorization or for which the recipient was not eligible.

U.S. citizen. An individual who resides as a citizen in any of the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Marianas, the Federated States of Micronesia, the Republic of Palau, or the Republic of the Marshall Islands.

USDA. The United States Department of Agriculture.

Unsecured loan. A loan evidenced only by the borrower's promissory note.

Value appreciation. The current market value of the property minus: the balance due prior lienholders, the unpaid balance of the RHS debt, unreimbursed closing costs (if any), principal reduction, the original equity (if any) of the borrower, and the value added by capital improvements.

Very low income. An adjusted income limit developed in consultation with HUD under 42 U.S.C. 1437a(b)(2)(D)..

Veterans preference. A preference extended to any person applying for a loan or grant under this part who served on active duty and has been discharged or released from the active forces on conditions other than dishonorable from the United States Army, Navy, Air Force, Marine Corps, or Coast Guard. The preference applies to the serviceperson, or the family of a deceased serviceperson who died in service before the termination of such war or such period or era. The applicable timeframes are:

(1) During the period of April 6, 1917, through March 31, 1921;

(2) During the period of December 7, 1941, through December 31, 1946;

(3) During the period of June 27, 1950, through January 31, 1955;

(4) For a period of more than 180 days, any part of which occurred after January 31, 1955, but on or before May 7, 1975; or

(5) During the period beginning August 2, 1990, and ending the date prescribed by Presidential Proclamation or law.

§ 3550.11 State Director Assessment of Homeowner Education.

(a) State Director's will make an assessment of the availability of certified homeowner education in their respective states and maintain an annually updated listing of providers and their reasonable costs.

(b)The order of preference for homeowner education formats is as follows:

(1) Classroom; one-on-one counseling; or interactive video conference.

(2) If none of the formats in paragraph (b)(1) of this section is reasonably available; as determined under §3550.53, then the applicant may use interactive home-study or interactive telephone counseling of at least four hours duration.

(3) If none of the formats in paragraphs (b)(1) and (b)(2) of this section is reasonably available as determined under § 3550.53, then the applicant may use on-line counseling to meet the homeownership education requirement.

(c) Homeownership education must include a letter or certificate of completion and be provided by homeownership education counselors that are certified by any of the following:

(1) The Department of Housing and Urban Development (HUD);

(2) NeighborWorks America (NWA);

(3) The National Federation of Housing Counselors (NFHC) ;

(4) National American Indian Housing Council (NAIHC); or

(5) The State Housing Finance Agency or other qualified organization approved by the State Director.

(d) The provider will issue a letter or certificate of completion to document that the borrower has satisfactory knowledge of these minimum topics:

(1) Preparing for homeownership (evaluate readiness to go from rental to homeownership),

(2) Budgeting (pre and post-purchase),

(3) Credit counseling,

(4) Shopping for a home,

(5) Lender differences (predatory lending),

(6) Obtaining a mortgage (mortgage process, different types of mortgages),

(7) Loan closing (closing process, documentation, closing costs),

(8) Post-occupancy counseling (delinquency and foreclosure prevention),

(9) Life as a homeowner (homeowner warranties, maintenance and repairs).

(e) The provider may tailor the homeownership education training to the needs of the borrower to ensure satisfactory knowledge of the topics listed in paragraph (d) of this section.

§§ 3550.12 - 3550.49 [Reserved]

§ 3550.50 OMB control number.

The information collection requirements contained in this regulation have been approved by the Office of Management and Budget (OMB) and have been assigned OMB control number 0575-0172. Public reporting burden for this collection of information is estimated to vary from 5 minutes to 3 hours per response, with an average of 1 1/2 hours per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. You are not required to respond to this collection of information unless it displays a currently valid OMB control number.

Subpart B - Section 502 Origination

§ 3550.51 Program objectives.

Section 502 of the Housing Act of 1949, as amended authorizes the Rural Housing Service (RHS) to provide financing to help low- and very low-income persons who cannot obtain credit from other sources obtain adequate housing in rural areas. Resources for the section 502 program are limited, and therefore, applicants are required to use section 502 funds in conjunction with funding or financing from other sources, if feasible. Sections 3550.52 through 3550.73 set forth the requirements for originating loans on program terms. Section 3550.74 describes the differences for originating loans on nonprogram (NP) terms.

§ 3550.52 Loan purposes.

Section 502 funds may be used to buy, build, rehabilitate, improve, or relocate an eligible dwelling and provide related facilities for use by the borrower as a permanent residence. In limited circumstances section 502 funds may be used to refinance existing debt.

(a) Purchases from existing RHS borrowers. To purchase a property currently financed by an RHS loan, the new borrower must assume the existing RHS indebtedness. Section 502 funds may be used to provide additional financing or make repairs. Loan funds also may be used to permit a remaining borrower to purchase the equity of a departing co-borrower.

(b) Refinancing non-RHS loans. Debt from an existing non-RHS loan may be refinanced if the existing debt is secured by a lien against the property, RHS will have a first lien position on the security property after refinancing, and:

(1) In the case of loans for existing dwellings, if:

(i) Due to circumstances beyond the applicant's control, the applicant is in danger of losing the property, the debt is over $5,000 and the debt was incurred for eligible program purposes prior to loan application or was a protective advance made by the mortgagee for items covered by the loan to be refinanced, including accrued interest, insurance premiums, real estate tax advances, or preliminary foreclosure costs; or

(ii) If a loan of $5,000 or more is necessary for repairs to correct major deficiencies and make the dwelling decent, safe and sanitary and refinancing is necessary for the borrower to show repayment ability, regardless of the delinquency.

(2) In the case of loans for a building site without a dwelling, if:

(i) The debt to be refinanced was incurred for the sole purpose of purchasing the site,

(ii) The applicant is unable to acquire adequate housing without refinancing, and

(iii)The RHS loan will include funds to construct an appropriate dwelling on the site for the applicant's use.

(3) Debts incurred after the date of RHS loan application but before closing may be refinanced if the costs are incurred for eligible loan purposes and any construction work conforms to the standards specified in this part.

(c) Refinancing RHS debt. Under limited circumstances, an existing RHS loan may be refinanced in accordance with § 3550.204 to allow the borrower to receive payment assistance.

(d) Eligible costs. Improvements financed with loan funds must be on land which, after closing, is part of the security property. In addition to acquisition, construction, repairs, or the cost of relocating a dwelling, loan funds may be used to pay for:

(1) Reasonable expenses related to obtaining the loan, including legal, architectural and engineering, technical, title clearance, and loan closing fees; and appraisal, surveying, environmental, tax monitoring, and other technical services; and personal liability insurance fees for Mutual Self-Help borrowers.

(2) The cost of providing special design features or equipment when necessary because of a physical disability of the applicant or a member of the household.

(3) Reasonable connection fees, assessments, or the pro rata installment costs for utilities such as water, sewer, electricity, and gas for which the borrower is liable and which are not paid from other funds.

(4) Reasonable and customary lender charges and fees if the RHS loan is being made in combination with a leveraged loan.

(5) Real estate taxes that are due and payable on the property at the time of closing and for the establishment of escrow accounts for real estate taxes, hazard and flood insurance premiums, and related costs.

(6) Packaging fees resulting from the certified loan application packaging process outlined in § 3550.75. The fee may not exceed two percent of the national average area loan limit as determined by the Agency and may be limited further at the Agency's discretion. Nominal packaging fees not resulting from the certified loan application process are an eligible cost provided the fee is no more than $350; the loan application packager is a nonprofit, tax exempt partner that received an exception to all or part of the requirements outlined in § 3550.75 from the applicable Rural Development State Director; and the packager gathers and submits the information needed for the Agency to determine if the applicant is preliminarily eligible along with a fully completed and signed uniform residential loan application.

(7) Purchasing and installing essential equipment in the dwelling, including ranges, refrigerators, washers or dryers, if these items are normally sold with dwellings in the area and if the purchase of these items is not the primary purpose of the loans.

(8) Purchasing and installing approved energy savings measures and approved furnaces and space heaters that use fuel that is commonly used, economical, and dependably available.

(9) Providing site preparation, including grading, foundation plantings, seeding or sodding, trees, walks, yard fences, and driveways to a building site.

(10) Reasonable fees for homeownership education as determined by the State Director under §3550.11 of this subpart. Such fees may be added to the loan amount in excess of the area loan limit and appraised value of the house.

(e) Loan restrictions. Loan funds may not be used to:

(1) Purchase an existing manufactured home, or for any other purposes prohibited in § 3550.73(b).

(2) Purchase or improve income-producing land or buildings to be used principally for income-producing purposes.

(2) Pay fees, commissions, or charges to for-profit entities related to loan packaging or referral of prospective applicants to RHS.

§ 3550.53 Eligibility requirements.

(a) Income eligibility. At the time of loan approval, the household's adjusted income must not exceed the applicable low-income limit for the area, and at closing, must not exceed the applicable moderate-income limit for the area (see § 3550.54).

(b) Citizenship status. The applicant must be a United States citizen or a noncitizen who qualifies as a legal alien as defined in § 3550.10.

(c) Primary residence. Applicants must agree to and have the ability to occupy the dwelling on a permanent basis.

(1) Because of the probability of transfer, loans will not be approved for military personnel on active duty unless the applicant will be discharged within a reasonable period of time.

(2) Because of the probability of moves after graduation, loans will not be approved for a full-time student unless the applicant intends to make the home a permanent residence and there are reasonable prospects that employment will be available in the area after graduation.

(3) If the home is being constructed or renovated an adult member of the household must be available to make inspections and authorize progress payments as the dwelling is being constructed.

(d) Eligibility of current homeowners. Current homeowners are not eligible for initial loans except as follows:

(1) Current homeowners may receive RHS loan funds to:

(i) refinance an existing loan under the conditions outlined in § 3550.52(b);

(ii) purchase a new dwelling if the current dwelling is deficient housing as defined in § 3550.10; or

(iii) make necessary repairs to the property which is financed with an affordable non-RHS loan.

(2) Current homeowners with an RHS loan may receive a subsequent loan.

(e) Legal capacity. Applicants must have the legal capacity to incur the loan obligation, or have a court appointed guardian or conservator who is empowered to obligate the applicant in real estate matters.

(f) Suspension or debarment. Applications from applicants who have been suspended or debarred from participation in federal programs will be handled in accordance with 2 CFR parts 180 and 417.

(g) Repayment ability. Repayment ability means applicants must demonstrate adequate and dependably available income. The determination of income dependability will include consideration of the applicant’s past history of annual income.

(1) A very low-income applicant is considered to have repayment ability when the monthly amount required for payment of principal, interest, taxes, and insurance (PITI) does not exceed 29 percent of the applicant's repayment income, and the monthly amount required to pay PITI plus recurring monthly debts does not exceed 41 percent of the applicant's repayment income.

(2) A low-income applicant is considered to have repayment ability when the monthly amount required for payment of PITI does not exceed 33 percent of the applicant's repayment income, and the monthly amount required to pay PITI plus recurring monthly debts does not exceed 41 percent of repayment income.

(3) Repayment ratios may exceed the percentages specified in paragraphs (h)(1) and (h)(2) of this section if the applicant has demonstrated an ability to meet higher debt obligations, or if RHS determines, based on other compensating factors, that the household has a higher repayment ability.

(4) If an applicant does not meet the repayment ability requirements, the applicant can have another party join the application as a cosigner.

(5) If an applicant does not meet the repayment ability requirements, the applicant can have other household members join the application.

(h) Credit qualifications. Applicants must be unable to secure the necessary credit from other sources on terms and conditions that the applicant could reasonably be expected to fulfill. Applicants must have a credit history that indicates reasonable ability and willingness to meet debt obligations. An applicant with an outstanding judgment obtained by the United States in a federal court, other than the United States Tax Court, is not eligible for a loan or grant from RHS.

(1) Indicators of unacceptable credit include:

(i) Payments on any account where the amount of the delinquency exceeded one installment for more than 30 days within the last 12 months.

(ii) Payments on any account which was delinquent for more than 30 days on two or more occasions within a 12-month period.

(iii) A foreclosure which has been completed within the last 36 months.

(iv) An outstanding Internal Revenue Service tax lien or any other outstanding tax liens with no satisfactory arrangement for payment.

(v) A court-created or court-affirmed obligation or judgment caused by nonpayment that is currently outstanding or has been outstanding within the last 12 months, except for those excluded in paragraph (h)(2) of this section.

(vi) Two or more rent payments paid 30 or more days late within the last 2 years. If the applicant has experienced no other credit problems in the past 2 years, only 1 year of rent history will be evaluated. Rent payment history requirements may be waived if the RHS loan will reduce shelter costs significantly and contribute to an improved repayment ability.

(vii) Outstanding collection accounts with a record of irregular payment with no satisfactory arrangements for repayment, or collection accounts that were paid in full within the last 6 months.

(viii) Non-agency debts written off within the last 36 months unless paid in full at least 12 months ago.

(ix) Agency debts that were debt settled within the last 36 months or are being considered for debt settlement.

(x) Delinquency on a federal debt.

(2) The following will not be considered indicators of unacceptable credit:

(i) A bankruptcy in which debts were discharged more than 36 months prior to the date of application or where an applicant successfully completed a bankruptcy debt restructuring plan and has demonstrated a willingness to meet obligations when due for the 12 months prior to the date of application.

(ii) A judgment satisfied more than 12 months before the date of application.

(3) When an application is rejected because of unacceptable credit, the applicant will be informed of the reason and source of information.

(i) Homeownership education. Applicants who are first-time homebuyers must agree to provide documentation, in the form of a completion certificate or letter from the provider, that a homeownership education course from a certified provider under § 3550.11 has been successfully completed as defined by the provider prior to loan closing. Requests for exceptions to the homeowner education requirement will be reviewed and granted on an individual case-by-case basis. The State Director may grant an exception the homeownership education requirement for individuals in geographic areas within the State where the State Director verifies that certified homeownership education is not reasonably available in the local area in any of the formats listed in § 3550.11(b). Whether such homeownership education is reasonably available will be determined based on factors including, but not limited to: distance, travel time, geographic obstacles, and cost. On a case-by-case basis, the State Director also may grant an exception, provided the applicant borrower documents a special need, such as a disability, that would unduly impede completing a homeownership course in a reasonably available format.

§ 3550.54 Calculation of income and assets.

(a) Repayment income. Repayment income is the annual amount of income from all sources that are expected to be received by those household members who are parties to the promissory note, except for any student financial aid received by these household members for tuition, fees, books, equipment, materials, and transportation. Repayment income is used to determine the household's ability to repay a loan.

(b) Annual income. Annual income is the income of all household members from all sources except those listed in (b)(1) through (b)(12) of this section:

(1) earned income of persons under the age of 18 unless they are a borrower or a spouse of a member of the household,

(2) payments received for the care of foster children or foster adults,

(3) amounts granted for or in reimbursement of the cost of medical expenses,

(4) earnings of each full-time student 18 years of age or older, except the head of household or spouse, that are in excess of any amount determined pursuant to section 501(b)(5) of the Housing Act of 1949, as amended,

(5) temporary, nonrecurring, or sporadic income (including gifts),

(6) lump sum additions to family assets such as inheritances; capital gains; insurance payments under health, accident, or worker's compensation policies; settlements for personal or property losses; and deferred periodic payments of supplemental security income and Social Security benefits received in a lump sum,

(7) any earned income tax credit,

(8) adoption assistance in excess of any amount determined pursuant to section 501(b)(5) of the Housing Act of 1949, as amended,

(9) amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling,

(10) amounts paid by a State agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home,

(11) the full amount of any student financial aid, and

(12) any other revenue exempted by a Federal statue; a list of which is available from any Rural Development office.

(c) Adjusted income. Adjusted income is used to determine program eligibility for section 502 and 504 and the amount of payment subsidy for which the household qualifies under section 502. Adjusted income is annual income as defined in paragraph (b) of this section less any of the following deductions for which the household is eligible.

(1) For each household member, except the head of household or spouse, who is under 18 years of age, 18 years of age or older with a disability, or a full-time student, the amount determined pursuant to section 501(b)(5) of the Housing Act of 1949, as amended.

(2) A deduction of reasonable expenses for the care of minor 12 years of age or under that:

(i) enable a family member to work or to further a member's education,

(ii) are not reimbursed or paid by another source, and

(iii) in the case of expenses to enable a family member to work do not exceed the amount of income earned by the family member enabled to work.

(3) Expenses related to the care of household members with disabilities that:

(i) enable a family member to work,

(ii) are not reimbursed from insurance or another source, and

(iii) are in excess of three percent of the household's annual income.

(4) For any elderly family, a deduction in the amount determined pursuant to section 501(b)(5) of the Housing Act of 1949, as amended.

(5) For elderly households only, a deduction for household medical expenses that are not reimbursed from insurance or another source and which in combination with any expenses related to the care of household members with disabilities described in paragraph (c)(3) of this section, are in excess of three percent of the household's annual income.

(d) Net family assets. Income from net family assets must be included in the calculation of annual income. Net family assets also are considered in determining whether a down payment is required.

(1) Net family assets include, but are not limited to:

(i) equity in real property or other capital investments, other than the dwelling or site,

(ii) cash on hand and funds in savings or checking accounts,

(iii) amounts in trust accounts that are available to the household,

(iv) stocks, bonds, and other forms of capital investments that are accessible without retiring or terminating employment,

(v) lump sum receipts such as lottery winnings, capital gains, inheritances, and

(vi) personal property held as an investment.

(2) Net family assets do not include:

(i) interest in American Indian restricted land,

(ii) cash on hand which will be used to reduce the amount of the loan,

(iii) the value of necessary items of personal property,

(iv) assets that are part of the business, trade, or farming operation of any member of the household who is actively engaged in such operation,

(v) amounts in voluntary retirement plans such as individual retirement accounts (IRAs), 401(k) plans, and Keogh accounts (except at the time interest assistance is initially granted);

(vi) the value of an irrevocable trust fund or any other trust over which no member of the household has control;

(vii) cash value of life insurance policies;

(viii) the value of tax advantaged college savings plans (529 plan, Coverdell Educations Savings Account, etc.);

(ix) the value of tax advantaged health or medical savings or spending accounts; and

(x) other amounts deemed by the Agency not to constitute net family assets.

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§ 3550.55 Applications.

(a) Application submissions. All persons applying for RHS loans must file a complete written application in a format specified by RHS. Applications will be accepted even when funds are not available.

(b) Application processing.

(1) Incomplete applications will be returned to the applicant specifying in writing the additional information that is needed to make the application complete.

(2) An applicant may voluntarily withdraw an application at any time.

(3) RHS may periodically request in writing that applicants reconfirm their interest in obtaining a loan. RHS may withdraw the application of any applicant who does not respond within the specified timeframe.

(4) Applicants who are eligible will be notified in writing. If additional information becomes available that indicates that the original eligibility determination may have been incorrect, or that circumstances have changed, RHS may reconsider the application and the applicant may be required to submit additional information.

(5) Applicants who are ineligible will be notified in writing and provided with the specific reasons for the rejection.

(c) Selection for processing. When funding is not sufficient to serve all program-eligible applicants, applications will be selected for processing using the funding priorities specified in this paragraph. Within priority categories, applications will be processed in the order that the completed applications are received. In the case of applications with equivalent priority status that are received on the same day, preference will be extended to applicants qualifying for a veterans preference. After selection for processing, loans are funded on a first-come, first-served basis.

(1) First priority will be given to existing customers who request subsequent loans to correct health and safety hazards.

(2) Second priority will be given to loans related to the sale of an REO property or the transfer of an existing RHS financed property.

(3) Third priority will be given to applicants facing housing related hardships including applicants who have been living in deficient housing for more than 6 months, current homeowners in danger of losing a property through foreclosure, and other circumstances determined by RHS on a case-by-case basis to constitute a hardship.

(4) Fourth priority will be given to applicants seeking, loans for the construction of dwellings in an RHS-approved Mutual Self-Help project or loans that will leverage funding or financing from other sources.

(5) Applications from applicants who do not qualify for priority consideration in paragraphs (c)(1), (2), (3), or (4) of this section will be selected for processing after all applications with priority status have been processed. The Administrator may temporarily reclassify applications received through the certified loan application packaging process as fourth priority when determined appropriate.

(d) Applicant timeframe. RHS will specify a reasonable timeframe within which eligible applicants selected for processing must provide the information needed to underwrite the loan.

§ 3550.56 Site requirements.

(a) Rural areas. Loans may be made only in rural areas designated by RHS. If an area designation is changed to non-rural:

(1) New conditional commitments will be made and existing conditional commitments will be honored only in conjunction with an applicant for a section 502 loan who applied for assistance before the area designation changed.

(2) REO property sales and transfers with assumption may be processed.

(3) Subsequent loans may be made either in conjunction with a transfer with assumption of an RHS loan or to repair properties that have RHS loans.

(b) Site standards. Sites must be developed in accordance with 7 CFR part 1924, subpart C and any applicable standards imposed by a State or local government.

(1) The site must not be large enough to subdivide into more than one site under existing local zoning ordinances,

(2) The site must not include farm service buildings, though small outbuildings such as a storage shed may be included, and

(3) The value of the site must not exceed 30 percent of the "as improved" market value of the property. The State Director may waive the 30 percent requirement in high cost areas where other lenders permit a higher percentage.

§ 3550.57 Dwelling requirements.

(a) Modest dwelling. The property must be one that is considered modest for the area, must not be designed for income providing purposes, must not have an in-ground swimming pool or have a market value in excess of the applicable maximum loan limit, in accordance with §3550.63, unless RHS authorizes an exception under this paragraph. An exception may be granted on a case-by-case basis to accommodate the specific needs of an applicant, such as to serve exceptionally large households or to provide reasonable accommodation for a household member with a disability. Any additional loan amount approved must not exceed the amount required to address the specific need.

(b) New dwellings. Construction must meet the requirements in 7 CFR part 1924, subpart A.

(c) Existing dwellings. Existing dwellings must be structurally sound; functionally adequate; in good repair, or to be placed in good repair with loan funds; have adequate electrical, heating, plumbing, water, and wastewater disposal systems; and be free of termites and other wood damaging pests and organisms.

§ 3550.58 Ownership requirements.

After the loan is closed, the borrower must have an acceptable interest in the property as evidenced by one of the following.

(a) Fee-simple ownership. Acceptable fee-simple ownership is evidenced by a fully marketable title with a deed vesting a fee-simple interest in the property to the borrower.

(b) Secure leasehold interest. A written lease is required. To be acceptable, a leasehold interest must have an unexpired term that is at least 150 percent of the term of the mortgage, unless the loan is guaranteed, in which case the unexpired term of the lease must be at least 2 years longer than the loan term. In no case may the unexpired term be less than 25 years.

(c) Life estate interest. To be acceptable a life estate interest must provide the borrower with rights of present possession, control, and beneficial use of the property. Generally, persons with any remainder interests must be signatories to the mortgage. All of the remainder interests need not be included in the mortgage to the extent that one or more of the persons holding remainder interests are not legally competent (and there is no representative who can legally consent to the mortgage), cannot be located, or if the remainder interests are divided among such a large number of people that it is not practical to obtain the signatures of all of the remainder interests. In such cases, the loan may not exceed the value of the property interests owned by the persons executing the mortgage.

(d) Undivided interest. All legally competent co-owners will be required to sign the mortgage. When one or more of the co-owners are not legally competent (and there is no representative who can legally consent to the mortgage), cannot be located, or the ownership interests are divided among so large a number of co-owners that it is not practical for all of their interests to be mortgaged, their interests not exceeding 50 percent may be excluded from the security requirements. In such cases, the loan may not exceed the value of the property interests owned by the persons executing the mortgage.

(e) Possessory rights. Acceptable forms of ownership include possessory rights on an American Indian reservation or State-owned land and the interest of an American Indian in land held in severalty under trust patents or deeds containing restrictions against alienation, provided that land in trust or restricted status will remain in trust or restricted status.

§ 3550.59 Security requirements.

Before approving any loan, RHS will impose requirements to secure its interests.

(a) Adequate security. A loan will be considered adequately secured only when all of the following requirements are met:

(1) RHS obtains at closing a mortgage on all ownership interests in the security property or the requirements of § 3550.58 are satisfied.

(2) No liens prior to the RHS mortgage exist at the time of closing and no junior liens are likely to be taken immediately subsequent to or at the time of closing, unless the other liens are taken as part of a leveraging strategy or the RHS loan is essential for repairs and the senior lien secures an affordable non-RHS loan. Liens junior to the RHS lien may be allowed at loan closing if the junior lien will not interfere with the purpose or repayment of the RHS loan. When the junior lien involves a grant or a forgivable affordable housing product, the total debt may exceed the market value by the amount of the forgivable loan or grant up to 5 percent.

(3) The provisions of 7 CFR part 1927, subpart B regarding title clearance and the use of legal services have been followed.

(4) Existing and proposed property improvements are totally on the site and do not encroach on adjoining property.

(b) Guaranteed payment. Mortgage insurance guaranteeing payment from a Government agency or Indian tribe is adequate security.

§ 3550.60 Escrow account.

RHS may require that customers deposit into an escrow account amounts necessary to ensure that the account will contain sufficient funds to pay real estate taxes, hazard and flood insurance premiums, and other related costs when they are due in accordance with the Real Estate Settlement and Procedures Act (RESPA) of 1974 (12 U.S.C. 2601, et seq.) and section 501(e) of the Housing Act of 1949, as amended.

§ 3550.61 Insurance.

(a) Borrower responsibility. Any borrower with a secured indebtedness in excess of $15,000 at the time of loan approval must furnish and continually maintain hazard insurance on the security property, with companies, in amounts, and on terms and conditions acceptable to RHS including a “loss payable clause” payable to RHS to protect the Government’s interest.

(b) Amount. The borrower is required to insure the dwelling and any other essential buildings in an amount equal to the insurable value of the dwelling and other essential buildings. However, in cases where the borrower’s outstanding secured indebtedness is less than the insurable value of the dwelling and other essential buildings, the borrower may elect a lower coverage provided it is not less than the outstanding secured indebtedness. If the borrower fails, or is unable, to insure the secured property, RHS will force place insurance and charge the cost to the borrower’s account. Force place insurance only provides insurance coverage to the Agency and does not provide any direct coverage or benefit to the borrower. The amount of the lender-placed coverage generally will be the property’s last known insured value.

(c) Flood insurance. Flood insurance must be obtained and maintained for the life of the loan for all property located in a Special Flood Hazard Area (SFHA) as determined by the Federal Emergency Management Agency (FEMA). RHS actions will be consistent with 7 CFR part 1806, subpart B which addressed flood insurance requirements. If flood insurance through FEMA’s National Flood Insurance Program is not available in an SFHA, the property is not eligible for federal financial assistance.

(d) Losses.

(1) Loss deductible clauses for required insurance coverage may not exceed the generally accepted minimums based on current industry standards and local market conditions.

(2) Customers must immediately notify RHS of any loss or damage to insured property and collect the amount of the loss from the insurance company.

(3) Depending on the amount of the loss, RHS may require that loss payments be supervised. All repairs and replacements done by or under the direction of the borrower, or by contract, will be planned, performed, inspected, and paid for in accordance with 7 CFR part 1924, subpart A.

(4) When insurance funds remain after all repairs, replacements, and other authorized disbursements have been made, the funds will be applied in the following order:

(i) Prior liens, including delinquent property taxes.

(ii) Past-due amounts.

(iii) Protective advances due.

(iv) Released to the customer if the RHS debt is adequately secured.

(5) If a loss occurs when insurance is not in force, the borrower is responsible for making the needed repairs or replacements and ensuring that the insurance is reinstated on the property.

(6) If the borrower is not financially able to make the repairs, RHS may take one of the following actions:

(i) Make a subsequent loan for repairs.

(ii) Subordinate the RHS lien to permit the borrower to obtain funds for needed repairs from another source.

(iii) Permit the borrower to obtain funds secured by a junior lien from another source.

(iv) Make a protective advance to protect the Government's interest.

(v) Accelerate the account.

§ 3550.62 Appraisals.

(a) Requirement. An appraisal is required when the debt to be secured exceeds $15,000 or whenever RHS determines that it is necessary to establish the adequacy of the security. Appraisals must be made in accordance with the Uniform Standards of Professional Appraisal Practices. When other real estate is taken as additional security, it will be appraised if it represents a substantial portion of the security for the loan.

(b) Fees. RHS will charge a fee for each loan application that requires an appraisal, except the appraisal fee is not required on appraisals done for subsequent loans needed to make minimal, essential repairs or in cases where another party provides an appraisal which is acceptable to RHS. Fees collected in connection with a dwelling constructed under an approved conditional commitment will be paid to the contractor at closing to offset the cost of the real estate appraisal that is included in the conditional commitment fee.

§ 3550.63 Maximum loan limit.

Total secured indebtedness must not exceed the area loan limit or market value limitations specified in paragraphs (a) or (b) of this section, whichever is lower. Any loan amount for the RHS appraisal, tax monitoring fee, and the charge to establish an escrow account for taxes and insurance will not be subject to the limitations specified below. This section does not apply to loans on NP terms.

(a) Area loan limit. (1) The area loan limit is the maximum value of the property RHS will finance in a given locality. This limit is based on a percentage(s) of the applicable local HUD section 203(b) limit. The percentage(s) will be determined by the Agency and published in the program handbook. The area loan limits will be reviewed at least annually and posted to the Agency website.

(2) The maximum loan limit calculated under paragraph (a)(1) will be reduced in the following situations:

(i) When the applicant owns the site or is purchasing the site at a sales price below market value, the market value of the lot will be deducted from the maximum loan limit, and

(ii) When an applicant is receiving a housing grant or other form of affordable housing assistance for purposes other than closing costs, the amount(s) of such grants and affordable housing assistance will be deducted from the maximum loan limit.

(3) The maximum loan limit for self-help housing will be calculated by adding the total of the market value of the lot (including reasonable and typical costs of site development), the cost of construction, and the value of sweat equity. The total of these three factors cannot exceed the limit established in paragraph (a)(1) of this section.

(b) Market value limitation.

(1) The market value limitation is 100 percent of market value for existing housing and for new dwellings for which RHS will receive adequate documentation of construction quality and the source of such documentation is acceptable to RHS.

(2) The market value limitation is 90 percent of market value for new dwellings for which adequate documentation of construction quality is not available.

(3) The market value limitation can be increased by:

(i) Up to one percent, if RHS makes a subsequent loan for closing costs only, in conjunction with the sale of an REO property or an assumption.

(ii) The amount necessary to make a subsequent loan for repairs necessary to protect the Government's interest, and reasonable closing costs.

(iii) The amount necessary to refinance an existing borrower's RHS loans, plus closing costs associated with the new loan.

§ 3550.64 Down payment.

Elderly families must use any net family assets in excess of $20,000 towards a down payment on the property. Non-elderly families must use net family assets in excess of $15,000 towards a down payment on the property. Applicants may contribute assets in addition to the required down payment to further reduce the amount to be financed.

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§ 3550.66 Interest rate.

Loans will be written using the applicable RHS interest rate in effect at loan approval or loan closing, whichever is lower. Information about current interest rates is available in any Rural Development office.

§ 3550.67 Repayment period.

Loans will be scheduled for repayment over a period that does not exceed the expected useful life of the property as a dwelling. The loan repayment period will not exceed:

(a) Thirty-three years in all cases except as noted in paragraphs (b), (c), and (d) of this section.

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(b) Thirty-eight years:

(1) For initial loans, or subsequent loans made in conjunction with an assumption, if the applicant's adjusted income does not exceed 60 percent of the area adjusted median income and the longer term is necessary to show repayment ability.

(2) For subsequent loans not made in conjunction with an assumption if the applicant's initial loan was for a period of 38 years, the applicant's adjusted income at the time the subsequent loan is approved does not exceed 60 percent of area adjusted median income, and the longer terms is necessary to show repayment ability.

(c) Ten years for loans not exceeding $2,500.

(d) Thirty years for manufactured homes.

§ 3550.68 Payment subsidies.

RHS administers three types of payment subsidies: interest credit, payment assistance method 1 and payment assistance method 2. Payment subsidies are subject to recapture when the borrower transfers title or ceases to occupy the property.

(a) Eligibility for payment subsidy.

(1) Applicants or borrowers who receive loans on program terms are eligible to receive payment subsidy if they personally occupy the property and have adjusted income at or below the applicable moderate-income limit.

(2) Payment subsidy may be granted for initial loans or subsequent loans made in conjunction with an assumption only if the term of the loan is at least 25 years or more.

(3) Payment subsidy may be granted for subsequent loans not made in conjunction with an assumption if the initial loan was for a term of 25 years or more.

(b) Determining type of payment subsidy.

(1) A borrower currently receiving interest credit will continue to receive it for the initial loan and for any subsequent loan for as long as the borrower is eligible for and remains on interest credit.

(2) If a borrower receiving payment assistance using payment assistance method 1 receives a subsequent loan, payment assistance method 2 will be used to calculate the subsidy for the initial loan and subsequent loan. .

(3) A borrower who has never received payment subsidy, or who has stopped receiving interest credit or payment assistance method 1, and at a later date again qualifies for a payment subsidy, will receive payment assistance method 2.

(4) A borrower may not opt to change payment assistance methods.

(c) Calculation of payment assistance. Regardless of the method used, payment assistance may not exceed the amount necessary if the loan were amortized at an interest rate of 1 percent.

(1) Payment Assistance Method 2. The amount of payment assistance granted is the lesser of the difference between:

(i) The annualized promissory note installments for the combined RHS loan and eligible leveraged loans plus the cost of taxes and insurance less 24 percent of the borrower's adjusted income, or

(ii) The annualized promissory note installments for the RHS loan less the amount the borrower would pay if the loan were amortized at an interest rate of 1 percent.

(2) Payment Assistance Method 1. The amount of payment assistance granted is the difference between the installment due on the promissory note and the greater of the payment amortized at the equivalent interest rate or the payment calculated based on the required floor payment. In leveraging situations, the equivalent interest rate will be used.

(i) The floor payment, which is defined as a minimum percentage of adjusted income that the borrower must pay for PITI: 22 percent for very low-income borrowers, 24 percent for low-income borrowers with adjusted income below 65 percent of area adjusted median, and 26 percent for low-income borrowers with adjusted incomes between 65 and 80 percent of area adjusted median; or

(ii) The annualized note rate installment and the payment at the equivalent interest rate, which is determined by a comparison of the borrower's adjusted income to the adjusted median income for the area in which the security property is located. The following chart is used to determine the equivalent interest rate.

§ 3550.68 (c)(2) (Con.)

PERCENTAGE OF MEDIAN INCOME AND THE EQUIVALENT INTEREST RATE

When the applicant's adjusted income is:

Equal to or more than:	BUT less than:	THEN the equivalent interest rate is*
00 %	50.01 of adjusted median income	1 %
50.01 %	55 of adjusted median income	2 %
55 %	60 of adjusted median income	3 %
60 %	65 of adjusted median income	4 %
65 %	70 of adjusted median income	5 %
70 %	75 of adjusted median income	6 %
75 %	80.01 of adjusted median income	6.5%
80.01 %	90 of adjusted median income	7.5 %
90 %	100 of adjusted median income	8.5 %
100 %	110 % of adjusted median income	9 %
110 %	or more than adjusted median income	9.5 %

* Or note rate, whichever is less; in no case will the equivalent interest rate be less than one percent.

(d) Calculation of interest credit. The amount of interest credit granted is the difference between the sum of the annual installments due at the promissory note interest rate and the greater of:

(1) Twenty percent of the borrower's adjusted income less the cost of real estate taxes and insurance, or

(2) The amount the borrower would pay if the loan were amortized at an interest rate of one percent.

(e) Annual review. The borrower's income will be reviewed annually to determine whether the borrower is eligible for continued payment subsidy. The borrower must notify RHS whenever an adult member of the household changes or obtains employment, there is a change in household composition, or if income increases by at least 10 percent so that RHS can determine whether a review of the borrower's circumstances is required.

§ 3550.69 Deferred mortgage payments.

For qualified borrowers, RHS may defer up to 25 percent of the monthly principal and interest payment at 1 percent for up to 15 years. This assistance may be granted only at initial loan closing and is reviewed annually. Deferred mortgage payments are subject to recapture when the borrower transfers title or ceases to occupy the property.

(a) Eligibility. In order to qualify for deferred mortgage payments, all of the following must be true:

(1) The applicant's adjusted income at the time of initial loan approval does not exceed the applicable very low-income limits.

(2) The loan term is 38 years, or 30 years for a manufactured home.

(3) The applicant's payments for principal and interest, calculated at a one percent interest rate for the maximum allowable term, plus estimated costs for taxes and insurance exceeds:

(i) For applicants receiving payment assistance, 29 percent of the applicant's repayment income by more than $10 per month, or

(ii) For applicants receiving interest credit, 20 percent of adjusted income by more than $10 per month.

(b) Amount and terms.

(1) The amount of the mortgage payment to be deferred will be the difference between the applicant's payment for principal and interest, calculated at one percent interest for the maximum allowable term, plus estimated costs for taxes and insurance and:

(i) For applicants receiving payment assistance, 29 percent of the applicant's repayment income.

(ii) For applicants receiving interest credit, 20 percent of adjusted income.

(2) Deferred mortgage payment agreements will be effective for a 12-month period.

(3) Deferred mortgage assistance may be continued for up to 15 years after loan closing. Once a borrower becomes ineligible for deferred mortgage assistance, the borrower can never again receive deferred mortgage assistance.

(c) Annual review. The borrower's income, taxes, and insurance will be reviewed annually to determine eligibility for continued deferred mortgage assistance. The borrower must notify RHS whenever an adult member of the household changes or obtains employment or if income increases by at least 10 percent so that RHS can determine whether a review of the borrower's circumstances is required.

§ 3550.70 Conditional commitments.

A conditional commitment is a determination by RHS that a dwelling offered for sale will be acceptable for purchase by a qualified RHS loan applicant if it is built or rehabilitated in accordance with RHS-approved plans, specifications, and regulations and priced within the lesser of the property's appraised value or the applicable maximum loan limit. The conditional commitment does not reserve funds, does not guarantee funding, and does not ensure that an eligible loan applicant will be available to buy the dwelling.

(a) Eligibility. To be eligible to request a conditional commitment, the builder, dealer-contractor, or seller must:

(1) Have an adequate ownership interest in the property, as defined in § 3550.58, prior to the beginning of any planned construction;

(2) Have the experience and ability to complete any proposed work in a competent and professional manner;

(3) Have the legal capacity to enter into the required agreements;

(4) Be financially responsible and have the ability to finance or obtain financing for any proposed construction or rehabilitation; and

(5) Comply with the requirements of 7 CFR part 1901, subpart E and all applicable laws, regulations, and Executive Orders relating to equal opportunity. Anyone who receives 5 or more conditional commitments during a 12-month period must obtain RHS approval of an affirmative marketing plan.

(b) Limitations. Conditional commitments for new or substantially rehabilitated dwellings will not be issued after construction has started. RHS may limit the total number of conditional commitments issued in any locality based on market demand.

(c) Commitment period. A conditional commitment will be valid for 12 months from the date of issuance. The commitment may be extended for up to an additional 6 months if there are unexpected delays in construction caused by such factors as bad weather, materials shortages, or marketing difficulties. Conditional commitments may be canceled if construction does not begin within 60 days after the commitment is issued.

(d) Conditional commitments involving packaging of applications. A conditional commitment may be made to a seller, builder, or dealer-contractor who packages an RHS loan application for a prospective purchaser. In cases where the dwelling is to be constructed for sale to a specific eligible applicant, all of the following conditions must be met:

(1) The conditional commitment will not be approved until the applicant's loan has been approved;

(2) Construction will not begin until loan funds are obligated for the loan. Exceptions may be made when it appears likely that funding will be forth comining and as loan as the RHS lien priority is not jeopardized. The sales agreement must indicate that the loan has been approved but not funded and must provide that if the loan is not closed within 90 days of the date of approval, the contractor may terminate the sales agreement and sell the property to another party. If the sales agreement is terminated, the conditional commitment will be honored for another eligible loan applicant for the remaining period of the commitment; and

(3) The RHS loan will be closed only after the dwelling is constructed or the required rehabilitation completed and final inspection has been made.

(e) Fees. An application for a conditional commitment must include payment of the conditional commitment fee. The fee will be refunded if for any reason preliminary inspection of the property or investigation of the conditional commitment applicant indicates that a conditional commitment will not be issued. Application fees will not be refunded for any property on which the required appraisal has been made.

(f) Failure of conditional commitment applicant or dwelling to qualify. The conditional commitment applicant will be informed if the conditional commitment is denied. Conditional commitments will be canceled if the property does not meet program requirements.

(g) Changes in plans, specifications, or commitment price. The holder of the conditional commitment must request approval for changes in plans, specifications, and commitment price. RHS may approve the changes if the following requirements are met:

(1) The property price does not exceed the maximum loan limit and increases in costs are due to factors beyond the control of the commitment holder, and

(2) The requested changes are justifiable and appropriate.

(h) Builder's warranty. The builder or seller, as appropriate, must execute either an RHS-approved "Builder's Warranty," or provide a 10-year insured warranty when construction is completed or the loan is closed.

§ 3550.71 Special requirements for condominiums.

RHS loans may be made for condominium units under the following conditions:

(a) The unit is in a project approved or accepted by U.S. Department of Housing and Urban Development (HUD), the Federal National Mortgage Association (Fannie Mae), or the Federal Home Loan Mortgage Corporation (Freddie Mac).

(b) The condominium project complies with the requirements of the condominium enabling statute and all other applicable laws. Any right of first refusal in the condominium documents will not impair the rights of RHS to:

(1) Foreclose or take title to a condominium unit pursuant to the remedies in the mortgage;

(2) Accept a deed in lieu of foreclosure in the event of default by a mortgagor; and

(3) Sell or lease a unit acquired by RHS.

(c) If RHS obtains title to a condominium unit pursuant to the remedies in its mortgage or through foreclosure, RHS will not be liable for more than 6 months of the unit's unpaid regularly budgeted dues or charges accrued before acquisition of the title to the unit by RHS. The homeowners association's lien priority may include costs of collecting unpaid dues.

(d) In case of condemnation or substantial loss to the units or common elements of the condominium project, unless at least two-thirds of the first mortgagees or unit owners of the individual condominium units have given their consent, the homeowners association may not:

(1) By act or omission seek to abandon or terminate the condominium project;

(2) Change the pro rata interest or obligations of any condominium unit in order to levy assessments or charges, allocate distribution of hazard insurance proceeds or condemnation awards, or determine the pro rata share of ownership of each condominium unit in the common elements;

(3) Partition or subdivide any condominium unit;

(4) Seek to abandon, partition, subdivide, encumber, sell, or transfer the common elements by act or omission (the granting of easements for public utilities or other public purposes consistent with the intended use of the common elements by the condominium project is not a transfer within the meaning of this clause); or

(5) Use hazard insurance proceeds for losses to any condominium property (whether units or common elements) for other than the repair, replacement, or reconstruction of the condominium property.

(e) All taxes, assessments, and charges that may become liens prior to the first mortgage under local law relate only to the individual condominium units and not to the condominium project as a whole.

(f) No provision of the condominium documents gives a condominium unit owner or any other party priority over any rights of RHS as first or second mortgagee of the condominium unit pursuant to its mortgage in the case of a payment to the unit owner of insurance proceeds or condemnation awards for losses to or taking of condominium units or common elements.

(g) If the condominium project is on a leasehold the underlying lease provides adequate security of tenure as described in § 3550.58(b).

(h) At least 70 percent of the units have been sold. Multiple purchases of condominium units by one owner are counted as one sale when determining if the sales requirement has been met.

(i) No more than 15 percent of the unit owners are more than 1 month delinquent in payment of homeowners association dues or assessments at the time the RHS loan is closed.

§ 3550.72 Community land trusts.

Eligible dwellings located on land owned by a community land trust may be financed if:

(a) The loan meets all the requirements of this subpart, and

(b) Any restrictions, imposed by the community land trust on the property or applicant are:

(1) Reviewed and accepted by RHS before loan closing, and

(2) Automatically and permanently terminated upon foreclosure or acceptance by RHS of a deed in lieu of foreclosure.

§ 3550.73 Manufactured homes.

With the exception of the restrictions and additional requirements contained in this section, section 502 loans on manufactured homes are subject to the same conditions as all other section 502 loans.

(a) Eligible costs. In addition to the eligible costs described in § 3550.52(d), RHS may finance the following activities related to manufactured homes when a real estate mortgage covers both the unit and the site:

(1) Purchase of an eligible unit, transportation, and set-up costs, and purchase of an eligible site if not already owned by the applicant.

(2) Site development work in accordance with 7 CFR part 1924, subpart A.

(3) Subsequent loans in conjunction with an assumption or sale of an REO property, or

(4) Subsequent loans for repairs of units financed under section 502.

(b) Loan restrictions. In addition to the loan restrictions described in § 3550.52(e), RHS may not use loan funds to finance:

(1) An existing unit and site unless it is already financed with a section 502 loan or is an RHS REO property.

(2) The purchase of a site without also financing the unit.

(3) Alteration or remodeling of the unit when the initial loan is made.

(4) Furniture, including movable articles of personal property such as drapes, beds, bedding, chairs, sofas, divans, lamps, tables, televisions, radios, stereo sets, and other similar items of personal property. Furniture does not include wall-to-wall carpeting, refrigerators, ovens, ranges, washing machines, clothes dryers, heating or cooling equipment, or other similar items.

(c) Dealer-contractors. No loans will be made on a manufactured home sold by any entity that is not an approved dealer-contractor that will provide complete sales, service, and site development services.

(d) Loan term. The maximum term of a loan on a manufactured home is 30 years.

(e) Construction and development. Unit construction, site development and set-up must conform to the Federal Manufactured Home Construction and Safety Standards (FMHCSS) and 7 CFR part 1924, subpart A. Development under the Mutual Self-Help and borrower construction methods is not permitted for manufactured homes.

(f) Contract requirements. The dealer-contractor must sign a construction contract, as specified in 7 CFR § 1924.6 which will cover both the unit and site development work. The use of multi-contracts is prohibited. A dealer-contractor may use subcontractors if the dealer-contractor is solely responsible for all work under the contract. Payment for all work will be in accordance with 7 CFR part 1924, subpart A, except no payment will be made for materials or property stored on site (e.g., payment for a unit will be made only after it is permanently attached to the foundation).

(g) Lien release requirements. All persons furnishing materials or labor in connection with the contract except the manufacturer of the unit must sign a Release by Claimants document, as specified in 7 CFR part 1924, subpart A. The manufacturer of the unit must furnish an executed manufacturer's certificate of origin to verify that the unit is free and clear of all legal encumbrances.

(h) Warranty requirements. The dealer-contractor must provide a warranty in accordance with the provisions of 7 CFR § 1924.12. The warranty must identify the unit by serial number. The dealer-contractor must certify that the unit substantially complies with the plans and specifications and the manufactured home has sustained no hidden damage during transportation and, if manufactured in separate sections, that the sections were properly joined and sealed according to the manufacturer's specifications. The dealer-contractor will also furnish the applicant with a copy of all manufacturer's warranties.

§ 3550.74 Nonprogram loans.

NP terms may be extended to applicants who do not qualify for program credit, or for properties that do not qualify as program properties, when it is in the best interest of the Government. NP loans are originated and serviced according to the requirements for program loans except as indicated in this section.

(a) Purpose. NP terms may be offered to expedite:

(1) Sale of an REO property.

(2) Assumption of an existing program loan on new rates and terms. If additional funds are required to purchase the property, the applicant must obtain them from another source.

(3) Conversion of a program loan that has received unauthorized assistance.

(4) Continuation of a loan on a portion of a security property when the remainder is being transferred and the RHS debt is not paid in full.

(b) Terms.

(1) Rate and term:

(i) For an applicant who intends to occupy the property, the term will not exceed 30 years.

(ii) For other applicants, the term will not exceed 10 years. If more favorable terms are necessary to facilitate the sale, the loan may be amortized over a period of up to 20 years with payment in full due not later than 10 years from the date of closing.

(iii) An applicant with a NP loan under paragraph (b)(1)(i) of this section who wishes to retain the property and purchase a new property with RHS credit must purchase the second property according to the terms of paragraph (b)(1)(ii) of this section, even if the new property will serve as the applicant's principal residence.

(2) NP loans are written at the NP interest rate in effect at the time of loan approval.

(3) NP borrowers are not eligible for payment assistance or a moratorium.

(c) Additional requirements.

(1) NP applicants other than public bodies and nonprofit organizations must pay a nonrefundable application fee.

(2) NP applicants must make a down payment based upon the purchase price and whether the applicant intends to personally occupy the property or use it for other purposes.

(3) NP applicants cannot finance loan closing costs or escrow, tax service, or appraisal fees.

(d) Reduced restrictions.

(1) NP applicants need not be unable to obtain other credit in order to receive a NP loan and are not required to refinance with private credit when they are able to do so.

(2) NP applicants are not required to occupy the property.

(3) NP applicants are not subject to leasing restrictions.

(e) Waiver of costs. When the purpose of the loan is the conversion of a program loan that has received unauthorized assistance or continuation of a loan on a portion of a security property when the remainder is being transferred, the application fee, appraisal fee, and down payment may be waived.

§ 3550.75 Certified loan application packaging process.

Persons interested in applying for a section 502 loan may, but are not required to, submit an application through the certified loan application packaging process.

(a) General. The certified loan application packaging process involves individuals who have been designated as an Agency-certified loan application packager, their qualified employers, and, if required by the State Director, Agency-approved intermediaries.

(b) Process requirements. To package section 502 loan applications under this process, each of the following conditions must be met:

(1) Agency-certified loan application packager. An individual who wishes to acquire RHS certification as a loan application packager must meet all of the following conditions:

(i) Have at least one year of affordable housing loan origination and/or affordable housing counseling experience;

(ii) Be employed (either as an employee or as an independent contractor) by a qualified employer as outlined in paragraph (b)(2) of this section;

(iii) Complete an Agency-approved loan application packaging course and successfully pass the corresponding test as specified in paragraph (c) of this section; and

(iv) Submit applications to the Agency via an intermediary if determined necessary by a State Director.

(2) Qualified employer. Individuals who have been designated as an Agency-certified loan application packager must be employed (either as an employee or as an independent contractor) by a qualified employer. To be considered a qualified employer, the packager's employer must meet each of the conditions specified in paragraphs (b)(2)(i) through (v) of this section. Tribal housing authorities and the States' Housing Finance Agencies are eligible and are exempt from the conditions specified in paragraphs (b)(2)(i) through (ii) of this section.

(i) Be a nonprofit organization or public agency in good standing in the State(s) of its operation.

(ii) Be tax exempt under the Internal Revenue Code and be engaged in affordable housing per their regulations, articles of incorporation, or bylaws.

(iii) Notify the Agency and the applicant if they or their Agency-certified packager(s) are the developer, builder, seller of, or have any other such financial interest in the property for which the application package is submitted. The Agency may disallow a particular qualified employer and/or Agency-certified packager from receiving part or all of a packaging fee if the Agency determines that the financial interest is improper or the qualified employer or Agency-certified packager has a history of improperly using its position when there has been a financial interest in the property.

(iv) Prepare an affirmative fair housing marketing plan for Agency approval as outlined in RD Instruction 1901-E (or in any superseding guidance provided in the impending RD Instruction 1940-D).

(v) Submit applications to the Agency via an intermediary if determined necessary by a State Director.

(3) Agency-approved intermediaries. To become an Agency-approved intermediary, an interested party must apply and demonstrate to the Agency's satisfaction that they meet each of the conditions specified below. The States' Housing Finance Agencies, however, are exempt from the conditions specified in paragraphs (b)(3)(i) through (v). After the initial application process, the Agency may require intermediaries to periodically demonstrate that they still meet the following criteria.

(i) Be a Section 501 (c)(3) nonprofit organization or public agency in good standing in the State(s) of its operation with the capacity to serve multiple qualified employers and their Agency-certified loan application packagers throughout an entire State or preferably throughout entire States and with the capacity to perform quality assurance reviews on a large volume of packaged loan applications within an acceptable period of time as determined by the Agency;

(ii) Be engaged in affordable housing in accordance with their regulations, articles of incorporation, or bylaws;

(iii) Be financially viable and demonstrate positive operating performance as evidenced by an independent audit paid for by the applicant seeking to be an intermediary;

(iv) Have at least five years of verifiable experience with the Agency's direct single family housing loan programs;

(v) Demonstrate that their quality assurance staff has experience with packaging, originating, or underwriting affordable housing loans.

(vi) Develop and implement quality control procedures designed to prevent submission of incomplete or ineligible application packages to the Agency;

(vii) Ensure that their quality assurance staff complete an Agency-approved loan application packaging course and successfully pass the corresponding test;

(viii) Not be the developer, builder, seller of, or have any other such financial interest in the property for which the application package is submitted; and

(ix) Provide supplemental training, technical assistance, and support to certified loan application packagers and qualified employers to promote quality standards and accountability; and to address areas for improvement and any changes in program guidance.

(c) Loan application packaging courses. Prospective loan application packagers must successfully complete an Agency-approved course that covers the material identified in paragraph (c)(1) of this section. Prospective intermediaries must also successfully complete an Agency-approved course as specified in paragraph (c)(2) of this section.

(1) Loan application packagers. At a minimum, the certification course for individuals who wish to become Agency-certified loan application packagers will provide:

(i) An in-depth review of the section 502 direct single family housing loan program and the regulations and laws that govern the program (including civil rights lending laws such as the Equal Credit Opportunity Act, Fair Housing Act, and Section 504 of the Rehabilitation Act of 1973);

(ii) A detailed discussion on the program's application process and borrower/property eligibility requirements;

(iii) An examination of the Agency's loan underwriting process which includes the use of payment subsidies; and

(iv) The roles and responsibilities of a loan application packager and the Agency staff.

(2) Intermediaries. The required course for an intermediary's quality assurance staff will cover the components described in paragraph (c)(1) of this section and other information relevant to undertaking quality assurance, technical assistance, and training functions in support of the qualified employers and their Agency-certified loan application packagers.

(3) Non-Agency trainers. Prior to offering the required course to packagers and intermediaries, non-Agency trainers must obtain approval from designated Agency staff. Non-Agency trainers, who will generally be limited to housing nonprofit organizations but may in rare cases include public bodies such as public universities, must provide proof of relevant experience and resources for delivery; present evidence that their individual trainers are competent and knowledgeable on all subject areas; submit course materials for Agency review; agree to maintain attendance records, test results, and updated course materials; and bear the cost of providing the training though a reasonable tuition fee may be charged the course participants. The course content, schedule, and tuition must be approved by RHS and a designated Agency staff member will typically participate in each training session to ensure accuracy of the program information and to serve as a program resource. A list of eligible non-Agency trainers, which is subject to change based on non-Agency trainers' performance, will be published by the Agency.

(d) Confidentiality. The Agency-certified loan application packager, qualified employer, Agency-approved intermediary and their agents must safeguard each applicant's personal and financial information.

(e) Retaining designation. The Agency will meet with the Agency-certified loan application packager, their qualified employer, and Agency-approved intermediary (if applicable) at least annually to maintain open lines of communication; discuss their packaging activities; identify and resolve deficiencies in the packaging process; and stipulate any training requirements for retaining designation (including but not limited to civil rights refresher training).

(f) Revocation. The designation as an Agency-certified loan application packager or Agency-approved intermediary is subject to revocation by the Agency under any of the following conditions:

(1) The rate of submitted packaged loan applications that receive RHS approval is below the acceptable limit as determined by the Agency;

(2) The rate of submitted packaged loan applications from very low-income applicants is below the acceptable level as determined by the Agency;

(3) Violation of applicable regulations, statutes and other guidance; or

(4) No viable packaged loan applications are submitted to the Agency in any consecutive 12-month period.

§§ 3550.76 - 3550.99 [Reserved]

§ 3550.100 OMB control number.

The information collection requirements contained in this regulation have been approved by the Office of Management and Budget (OMB) and have been assigned OMB control number 0575-0172. Public reporting burden for this collection of information is estimated to vary from 5 minutes to 3 hours per response, with an average of 1 1/2 hours per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. You are not required to respond to this collection of information unless it displays a currently valid OMB control number.

Subpart C - Section 504 Origination and Section 306C Water and Waste Disposal Grants

§ 3550.101 Program objectives.

This subpart sets forth policies for administering loans and grants under section 504(a) of title V of the Housing Act of 1949, as amended. Section 504 loans and grants are intended to help very low-income owner-occupants in rural areas repair their properties. This subpart also covers Water and Waste Disposal grants to individuals authorized by Section 306C(b) of the Consolidated Farm and Rural Development Act, (7 U.S.C. 1926c).

§ 3550.102 Grant and loan purposes.

(a) Grant funds. Grant funds may be used only to pay costs for repairs and improvements that will remove identified health and safety hazards or to repair or remodel dwellings to make them accessible and useable for household members with disabilities. Unused grant funds must be returned to the Rural Housing Service (RHS).

(b) Loan funds. Loan funds may be used to make general repairs and improvements to properties or to remove health and safety hazards, as long as the dwelling remains modest in size and design.

(c) Eligibility of mobile and manufactured homes. Repairs necessary to remove health and safety hazards may be made to mobile or manufactured homes provided:

(1) The applicant owns the home and site and has occupied the home prior to filing an application with RHS, and

(2) The mobile or manufactured home is on a permanent foundation or will be put on a permanent foundation with section 504 funds.

(d) Eligible costs. In addition to construction costs to make necessary repairs and improvements, loan and grant funds may be used for:

(1) Reasonable expenses related to obtaining the loan or grant, including legal, architectural and engineering, title clearance, and loan closing fees; and appraisal, surveying, environmental, tax monitoring, and other technical services.

(2) The cost of providing special design features or equipment when necessary because of a physical disability of the applicant or a member of the household.

(3) Reasonable connection fees, assessments, or the pro rata installation costs for utilities such as water, sewer, electricity, and gas for which the borrower is liable and which are not paid from other funds.

(4) Real estate taxes that are due and payable on the property at the time of closing and for the establishment of escrow accounts for real estate taxes, hazard and flood insurance premiums, and related costs.

(5) Fees to public and private nonprofit organizations that are tax exempt under the Internal Revenue Code for the development and packaging of applications.

(e) Restrictions on uses of loan or grant funds. Section 504 funds may not be used to:

(1) Assist in the construction of a new dwelling.

(2) Make repairs to a dwelling in such poor condition that when the repairs are completed, the dwelling will continue to have major hazards.

(3) Move a mobile home or manufactured home from one site to another.

(4) Pay for off-site improvements except for the necessary installation and assessment costs for utilities.

(5) Refinance any debt or obligation of the applicant incurred before the date of application, except for the installation and assessment costs of utilities.

(6) Pay fees, commission, or charges to for-profit entities related to loan packaging or referral of prospective applicants to RHS.

§ 3550.103 Eligibility requirements.

To be eligible, applicants must meet the following requirements:

(a) Owner-occupant. Applicants must own, as described in § 3550.107, and occupy the dwelling.

(b) Age (grant only). To be eligible for grant assistance, an applicant must be 62 years of age or older at the time of application.

(c) Income eligibility. At the time of loan or grant approval, the household's adjusted income must not exceed the applicable very low-income limit. Section 3550.54 provides a detailed discussion of the calculation of adjusted income.

(d) Citizenship status. The applicant must be a U.S. citizen or a non-citizen who qualifies as a legal alien, as defined in § 3550.10.

(e) Need and use of personal resources. Applicants must be unable to obtain financial assistance at reasonable terms and conditions from non-RHS credit or grant sources and lack the personal resources to meet their needs. In cases where the household is experiencing medical expenses in excess of three percent of the household's income, this requirement may be waived or modified. Elderly families must use any net family assets in excess of $20,000 to reduce their section 504 request. Non-elderly families must use any net family assets in excess of $15,000 to reduce their section 504 request. Applicants may contribute assets in excess of the aforementioned amounts to further reduce their request for assistance. The definition of assets for this purpose is net family assets as described in § 3550.54 of subpart B of this part, less the value of the dwelling and a minimum adequate site.

(f) Legal capacity. The applicant must have the legal capacity to incur the loan obligation or have a court appointed guardian or conservator who is empowered to obligate the applicant in real estate matters.

(g) Suspension or debarment. Applications from applicants who have been suspended or debarred from participation in federal programs will be handled in accordance with FmHA Instruction 1940-M (available in any Rural Development office).

(h) Repayment ability (loans only). Applicants must demonstrate adequate repayment ability as supported by a budget.

(1) If an applicant does not meet the repayment ability requirements, the applicant can have another party join the application as a cosigner.

(2) If an applicant does not meet the repayment ability requirements, the applicant can have other household members join the application.

(i) Credit qualifications. Applicants must be unable to secure the necessary credit from other sources under terms and conditions that the applicant could reasonably be expected to fulfill. Loan applicants must have a credit history that indicates reasonable ability and willingness to meet debt obligations. An applicant with an outstanding judgment obtained by the United States in a federal court, other than the United States Tax Court is not eligible for a loan or grant from RHS.

(1) Indicators of unacceptable credit include:

(i) Payments on any account where the amount of the delinquency exceeded one installment for more than 30 days within the last 12 months.

(ii) Payments on any account which was delinquent for more than 30 days on two or more occasions within a 12-month period.

(iii) Loss of security due to a foreclosure if the foreclosure has been completed within the last 36 months.

(iv) An outstanding Internal Revenue Service tax lien or any other outstanding tax liens with no satisfactory arrangement for payment.

(v) A court-created or court-affirmed obligation or judgment caused by nonpayment that is currently outstanding or has been outstanding within the last 12 months, except for those excluded by paragraphs (i)(2)(i) and (i)(2)(ii) of this section.

(vi) Outstanding collection accounts with a record of irregular payment with no satisfactory arrangements for repayment, or collection accounts that were paid in full within the last 6 months.

(vii) Non-agency debts written off within the last 36 months or paid in full at least 12 months ago.

(viii) Agency debts that were debt settled within the last 36 months or are being considered for debt settlement.

(ix) Delinquency on a federal debt.

(2) The following will not be considered indicators of unacceptable credit:

(i) A bankruptcy in which debts were discharged more than 36 months prior to the date of application or where an applicant successfully completed a bankruptcy debt restructuring plan and has demonstrated a willingness to meet obligations when due for the 12 months prior to the date of application.

(ii) A non-foreclosure judgment satisfied more than 12 months before the date of application.

(3) When an application is rejected because of unacceptable credit, the applicant will be informed of the reason and source of information.

§ 3550.104 Applications.

(a) Application submissions. All persons applying for section 504 loans or grants must file a complete written application in a format specified by RHS. Applications will be accepted even when funds are not available.

(b) Application processing.

(1) Incomplete applications will be returned to the applicant specifying in writing the additional information that is needed to make the application complete.

(2) An applicant may voluntarily withdraw an application at any time.

(3) RHS may periodically request in writing that applicants reconfirm their interest in obtaining a loan or grant. RHS may withdraw the application of any applicant who does not respond within the specified timeframe.

(4) Applicants who are eligible will be notified in writing. If additional information becomes available that indicates that the original eligibility determination may have been in error or that circumstances have changed, RHS may reconsider the application and the applicant may be required to submit additional information.

(5) Applicants who are ineligible will be notified in writing and provided with the specific reasons for the rejection.

(c) Processing priorities. When funding is not sufficient to serve all eligible applicants, applications for assistance to remove health and safety hazards will receive priority for funding. In the case of applications with equivalent priority status that are received on the same day, preference will be extended to applicants qualifying for a veterans preference. After selection for processing, requests for assistance are funded on a first-come, first-served basis.

§ 3550.105 Site requirements.

(a) Rural areas. Loans may be made only in rural areas designated by RHS. If an area designation is changed to nonrural an existing RHS borrower may receive 504 assistance.

(b) Not subdividable. The site must not be large enough to subdivide into more than one site under existing local zoning ordinances.

§ 3550.106 Dwelling requirements.

(a) Modest dwelling. The property must be one that is considered modest for the area, must not be designed for income producing purposes, have an in-ground swimming pool, or have a market value in excess of the applicable maximum loan limit, in accordance with § 3550.63.

(b) Post-repair condition. Dwellings repaired with section 504 funds need not be brought to the agency development standards of 7 CFR part 1924, subpart A, nor must all existing hazards be removed. However, the dwelling may not continue to have major health or safety hazards.

(c) Construction standards. All work must be completed in accordance with local construction codes and standards. When potentially hazardous equipment or materials are being installed, all materials and installations must be in accordance with the applicable standards in 7 CFR part 1924, subpart A.

§ 3550.107 Ownership requirements.

The applicant must have an acceptable ownership interest in the property as evidenced by one of the following:

(a) Full fee ownership. Acceptable full fee ownership is evidenced by a fully marketable title with a deed vesting a fee interest in the property to the applicant.

(b) Secure leasehold interest. A written lease is required. For loans, the unexpired portion of the lease must not be less than 2 years beyond the term of the promissory note. For grants, the remaining lease period must be at least 5 years. A leasehold for mutual help housing financed by U.S. Department of Housing and Urban Development (HUD) on Indian lands requires no minimum lease period and constitutes acceptable ownership.

(c) Life estate interest. To be acceptable, a life estate interest must provide the applicant with rights of present possession, control, and beneficial use of the property. For secured loans, generally persons with any remainder interests must be signatories to the mortgage. All of the remainder interests need not be included in the mortgage to the extent that one or more of the persons holding remainder interests are not legally competent (and there is no representative who can legally consent to the mortgage), cannot be located, or if the remainder interests are divided among such a large number of people that it is not practical to obtain the signatures of all of the remainder interests. In such cases, the loan may not exceed the value of the property interests owned by the persons executing the mortgage.

(d) Undivided interest. An undivided interest is acceptable if there is no reason to believe that the applicant's position as an owner-occupant will be jeopardized as a result of the improvements to be made, and:

(1) In the case of unsecured loans or grants, if any co-owners living or planning to live in the dwelling sign the repayment agreement.

(2) In the case of a secured loan, when one or more of the co-owners are not legally competent (and there is no representative who can legally consent to the mortgage), cannot be located, or the ownership interests are divided among so large a number of co-owners that it is not practical for all of their interests to be mortgaged, their interests not exceeding 50 percent may be excluded from the security requirements. In such cases, the loan may not exceed the value of the property interests owned by the persons executing the mortgage.

(e) Possessory rights. Acceptable forms of ownership include possessory right on an American Indian reservation or State-owned land and the interest of an American Indian in land held severalty under trust patents or deeds containing restrictions against alienation, provided that land in trust or restricted status will remain in trust or restricted status.

(f) Land purchase contract. A land purchase contract is acceptable if the applicant is current on all payments, and there is a reasonable likelihood that the applicant will be able to continue meeting the financial obligations of the contract.

(g) Alternative evidence of ownership. If evidence, as described in paragraphs (a) through (e) of this section, is not available, RHS may accept any of the following as evidence of ownership:

(1) Records of the local taxing authority that show the applicant as owner and that demonstrate that real estate taxes for the property are paid by the applicant.

(2) Affidavits by others in the community stating that the applicant has occupied the property as the apparent owner for a period of not less than 10 years, and is generally believed to be the owner.

(3) Any instrument, whether or not recorded, which is commonly accepted as evidence of ownership.

§ 3550.108 Security requirements (loans only).

When the total section 504 indebtedness is $7,500 or more, the property will be secured by a mortgage on the property, leasehold interest, or land purchase contract.

(a) RHS does not require a first lien position, but the total of all debts on the secured property may not exceed the value of the security, except by the amount of any required contributions to an escrow account for taxes and insurance and any required appraisal fee.

(b) Title clearance and the use of legal services generally must be conducted in accordance with 7 CFR part 1927, subpart B. These requirements need not be followed for:

(1) Loans where the total RHS indebtedness is less than $7,500; or

(2) Subsequent loans made for minimal essential repairs necessary to protect the Government's interest.

§ 3550.109 Escrow account (loans only).

RHS may require that borrowers deposit into an escrow account amounts necessary to ensure that the account will contain sufficient funds to pay real estate taxes, hazard and flood insurance premiums, and other related costs when they are due in accordance with the Real Estate Settlement and Procedures Act of 1974 (RESPA) and section 501(e) of the Housing Act of 1949, as amended.

§ 3550.110 Insurance (loans only).

(a) Borrower responsibility. Any borrower with a secured indebtedness in excess of $15,000 at the time of loan approval must furnish and continually maintain hazard insurance on the security property, with companies, in amounts, and on terms and conditions acceptable to RHS including a “loss payable clause” payable to RHS to protect the Government’s interest.

(b) Amount. The borrower is required to insure the dwelling and any other essential buildings in an amount equal to the insurable value of the dwelling and other essential buildings. However, in cases where the borrower’s outstanding secured indebtedness is less than the insurable value of the dwelling and other essential buildings, the borrower may elect a lower coverage provided it is not less than the outstanding secured

indebtedness. If the borrower fails, or is unable, to insure the secured property, RHS will force place insurance and charge the cost to the borrower's account. Force place insurance only provides insurance coverage to the Agency and does not provide any direct coverage or benefit to the borrower. The amount of the lender-placed coverage generally will be the property's last known insured value.

(c) Flood insurance. Flood insurance must be obtained and maintained for the life of the loan for all property located in Special Flood Hazard Areas (SFHA) as determined by the Federal Emergency Management Agency (FEMA). RHS actions will be consistent with RD Instruction 1970, Subpart F, 7 CFR part 1806, Subpart B, and RD Instruction 426.2 which address flood documentation and insurance requirements. If flood insurance through FEMA's National Flood Insurance Program is not available in a SFHA, if the lowest floor (including the basement) is not above the base flood elevation, or if there are viable alternative housing options outside of the floodplain, the property is not eligible for federal financial assistance.

(d) Losses.

(1) Loss deductible clauses for required insurance coverage may not exceed the generally accepted minimums based on current industry standards and local market conditions.

(2) Borrowers must immediately notify RHS of any loss or damage to insured property and collect the amount of the loss from the insurance company.

(3) RHS may require that loss payments be supervised. All repairs and replacements done by or under the direction of the borrower, or by contract, will be planned, performed, inspected, and paid for in accordance with 7 CFR part 1924, subpart A.

(4) When insurance funds remain after all repairs, replacements, and other authorized disbursements have been made, the funds will be applied in the following order:

(i) Prior liens, including delinquent property taxes.

(ii) Delinquency on the account.

(iii) Advances due for recoverable cost items.

(iv) Released to the borrower if the RHS debt is adequately secured.

(5) If a loss occurs when insurance is not in force, the borrower is responsible for making the needed repairs or replacements and ensuring that the insurance is reinstated on the property.

(6) If the borrower is not financially able to make the repairs, RHS may take one of the following actions:

(i) Make a subsequent loan for repairs.

(ii) Subordinate the RHS lien to permit the borrower to obtain funds for needed repairs from another source.

(iii) Permit the borrower to obtain funds secured by a junior lien from another source.

(iv) Make a protective advance to protect the Government's interest.

(v) Accelerate the account and demand payment in full.

§ 3550.111 Appraisals (loans only).

An appraisal is required when the section 504 debt to be secured exceeds $15,000 or whenever RHS determines that it is necessary to establish the adequacy of the security. RHS may charge an appraisal fee. Appraisals must be made in accordance with the Uniform Standards of Professional Appraisal Practices. When other real estate is taken as additional security it will be appraised if it represents a substantial portion of the security for the loan.

§ 3550.112 Maximum loan and grant.

(a) Maximum loan permitted. The sum of all outstanding section 504 loans to 1 borrower or on 1 dwelling may not exceed $20,000.

(1) Transferees who have assumed a section 504 loan and wish to obtain a subsequent section 504 loan are limited to the difference between the unpaid principal balance of the debt assumed and $20,000.

(2) For a secured loan, the total of all debts on the secured property may not exceed the value of the security, except by the amount of any required appraisal and tax monitoring fees, and the contributions to an escrow account for taxes and insurance.

(b) Maximum loan based upon ability to pay. The maximum loan is limited to the principal balance that can be supported given the amount the applicant has available, as determined by RHS, to repay a loan at 1 percent interest with a 20-year term.

(c) Maximum grant. The lifetime total of the grant assistance to any recipient is $7,500. No grant can be awarded unless the maximum level of loans, as supported by a budget, have been obtained.

§ 3550.113 Rates and terms (loans only).

(a) Interest rate. The interest rate for all section 504 loans will be 1 percent.

(b) Loan term. The repayment period for the loan should generally be as short as possible based on the applicant's repayment ability, and may never exceed 20 years; however loans made in combination with grants must have a term of 20 years.

§ 3550.114 Repayment agreement (grants only).

Grant recipients are required to sign a repayment agreement which specifies that the full amount of the grant must be repaid if the property is sold in less than 3 years from the date the grant agreement was signed.

§ 3550.115 WWD grant program objectives.

The objective of the WWD individual grant program is to facilitate the use of community water and waste disposal systems by the residents of colonias along the border between the U.S. and Mexico. WWD grants are processed the same as Section 504 grants, except as specified in this subpart.

§ 3550.116 Definitions applicable to WWD grants only.

(a) Colonia. Any identifiable community designated in writing by the State or county in which it is located; determined to be a colonia on the basis of objective criteria including lack of a potable water supply, lack of adequate sewage systems, and lack of decent, safe, and sanitary housing, inadequate roads, and drainage; and existed and was generally recognized as a colonia before October 1, 1989.

(b) Individual. Resident of a colonia located in a rural area.

(c) Rural areas. Includes unincorporated areas and any city or town with a population not in excess of 10,000 inhabitants according to the most recent decennial census of the United States.

(d) System. A community or central water supply or waste disposal system.

(e) WWD. Water and Waste Disposal grants to individuals.

§ 3550.117 WWD grant purposes.

Grant funds may be used to pay the reasonable costs for individuals to:

(a) Extend service lines from the system to their residence.

(b) Connect service lines to residence's plumbing.

(c) Pay reasonable charges or fees for connecting to a system.

(d) Pay for necessary installation of plumbing and related fixtures within dwellings lacking such facilities. This is limited to one bath tub, sink, commode, kitchen sink, water heater, and outside spigot.

(e) Construction and/or partiting off a portion of the dwelling for a bathroom, not to exceed 4.6 square meters (48 square feet) in size.

(f) Pay reasonable costs for closing abandoned septic tanks and water wells when necessary to protect the health and safety of recipients of a grant for a purpose provided in paragraph (a) or (b) of this section and is required by local or State law.

(g) Make improvements to individual's residence when needed to allow the use of the water and/or waste disposal system.

§ 3550.118 Grant restrictions.

(a) Maximum grant. Lifetime assistance to any individual for initial or subsequent Section 306C WWD grants may not exceed a cumulative total of $5,000.

(b) Limitation on use of grant funds. WWD grant funds may not be used to:

(1) Pay any debt or obligation of the grantees other than obligations incurred for purposes listed in § 3550.117.

(2) Pay individuals for their own labor.

§ 3550.119 WWD eligibility requirements.

In addition to the eligibility requirements of § 3550.103, WWD applicants must meet the following requirements:

(a) An applicant need not be 62 years of age or older.

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(b) Own and occupy a dwelling located in a colonia. Evidence of ownership will be presented as outlined in § 3550.107.

(c) Have a total taxable income from all individuals residing in the household that is below the most recent poverty income guidelines established by the Department of Health and Human Services.

(d) Must not be delinquent on any Federal debt.

(e) The household income must be verified at the time they apply for assistance through verification of employment and benefits. Federal tax returns are used as further verification of household income.

§§ 3550.120 - 3550.149 [Reserved]

§ 3550.150 OMB control number.

The information collection requirements contained in this regulation have been approved by the Office of Management and Budget (OMB) and have been assigned OMB control number 0575-0172. Public reporting burden for this collection of information is estimated to vary from 5 minutes to 3 hours per response, with an average of 1 1/2 hours per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. You are not required to respond to this collection of information unless it displays a currently valid OMB control number.

Subpart D - Regular Servicing

§ 3550.151 Servicing goals.

This subpart sets forth the Rural Housing Service (RHS) policies for managing the repayment of loans made under sections 502 and 504 of the Housing Act of 1949, as amended.

§ 3550.152 Loan payments.

(a) Payment terms. Unless the loan documents specify other loan repayment terms, borrowers are required to make monthly payments. Borrowers with existing loans specifying annual payments may request conversion to monthly payments, and must convert to a monthly payment schedule before any subsequent loan or new payment assistance is approved. Suitable forms of payment are: check, money order, or bank draft. Borrowers who make cash payments will be assessed a fee to cover the cost of conversion to a money order.

(b) Application of payments. If a borrower makes less than the scheduled payment, the payment is held in suspense and is not applied to the borrower's account. When subsequent payments are received in an amount sufficient to equal a scheduled payment, the amount will be applied in the following order:

(1) Protective advances charged to the account.

(2) Accrued interest due.

(3) Principal due.

(4) Escrow for taxes and insurance.

(c) Multiple loans. When a borrower with multiple loans for the same property makes less than the scheduled payment on all loans, the payment will be applied to the oldest loan and then in declining order of age. Future remittances will be applied beginning with the oldest unpaid installment.

(d) Application of excess payments. Borrowers can elect to make payments in excess of the scheduled amount to be applied to principal, provided there are no outstanding fees.

§ 3550.153 Fees.

RHS may assess reasonable fees including a tax service fee, fees for late payments, and fees for checks returned for insufficient funds.

§ 3550.154 Inspections.

RHS or its agent may make reasonable entries upon and inspections of any property used as security for an RHS loan as necessary to protect the interest of the Government. RHS will give the borrower notice at the time of or prior to an inspection.

§ 3550.155 Escrow account.

Escrow accounts will be administered in accordance with RESPA and section 501(e) of the Housing Act of 1949, as amended.

(a) Upon creation of the escrow account, RHS may require borrowers to deposit funds sufficient to pay taxes and insurance premiums applicable to the mortgage for the period since the last payments were made and to fund a cushion as permitted by RESPA.

(b) Borrowers may elect to escrow at any time during the terms of the loan if the outstanding RHS loan balance is over $2,500.

(c) RHS may require borrowers to escrow in conjunction with any special servicing action.

§ 3550.156 Borrower obligations.

(a) After receiving a loan from RHS, borrowers are expected to meet a variety of obligations outlined in the loan documents. In addition to making timely payments, these obligations include:

(1) Maintaining the security property, and

(2) Maintaining an adequately funded escrow account, or paying real estate taxes, hazard and flood insurance, and other related costs when due.

(b) If a borrower fails to fulfill these obligations, RHS may obtain the needed service and charge the cost to the borrower’s account.

§ 3550.157 Payment subsidy.

(a) Borrowers currently receiving payment subsidy.

(1) RHS will review annually each borrower's eligibility for continued payment subsidy and determine the appropriate level of assistance. To be eligible for payment subsidy renewal, the borrower must also occupy the property.

(2) If the renewal is not completed before the expiration date of the existing agreement, the effective date of the renewal will be either the expiration date of the previous agreement if RHS error caused the delay, or the next due date after the renewal is approved in all other cases.

(3) The borrower must notify RHS whenever an adult member of the household becomes employed or changes employment, there is a change in household composition, or if income increases by at least 10 percent. The household may also report decreases in income. If the change in the household's income will cause the payment for principal and interest to change by at least 10 percent, the household's payment subsidy may be adjusted for a new 12-month period. The new agreement will be effective the due date following the date the borrower's information is verified by RHS.

(b) Borrowers not currently receiving payment subsidy. Payment assistance may be granted to borrowers not currently receiving payment subsidy whose loans were approved on or after August 1, 1968, whose income does not exceed the applicable low-income limit for the area, are personally occupying the RHS financed property, and meet the requirements of § 3550.53 (b), (e), and (f). In general, to receive payment assistance the term of the loan at closing must have been at least 25 years. If an account has been reamortized and the initial term of the loan was at least 25 years, payment assistance may be granted even though the term of the reamortized loan is less than 25 years. Payment assistance may be granted on a subsequent loan for repairs with a term of less than 25 years.

(c) Cancellation of payment subsidy. RHS will cancel a payment subsidy if the borrower does not occupy the property, has sold or transferred title to the property, or is no longer eligible for payment subsidy.

§ 3550.158 Active military duty.

The Soldiers and Sailors Relief Act requires that the interest rate charged a borrower who enters full-time active military duty after a loan is closed not exceed six percent. Active military duty does not include participation in a military reserve or the National Guard unless the borrower is called to active duty.

(a) Amount of assistance. If a borrower qualifies for payment subsidy after reduction of the interest rate to six percent, the amount of payment subsidy received during the period of active military duty will be the difference between the amount due at the subsidized rate for principal and interest and the amount due at a six percent interest rate. The six percent interest rate will be effective with the first payment due after RHS confirms the active military status of the borrower.

(b) Change of active military status. The borrower must notify RHS when he or she is no longer on active military duty. RHS will cancel the six percent interest rate and resume use of the promissory note interest rate. A new payment subsidy agreement may be processed if the borrower is eligible.

§ 3550.159 Borrower actions requiring RHS approval.

(a) Mineral leases. Borrowers who wish to lease mineral rights to a security property must request authorization from RHS. RHS may consent to the lease of mineral rights and subordinate its liens to the lessee's rights and interests in the mineral activity if the security property will remain suitable as a residence and the Government's security interest will not be adversely affected. Subordination of RHS loans to a mineral lease does not entitle the leaseholder to any proceeds from the sale of the security property.

(1) If the proposed activity is likely to decrease the value of the security property, RHS may consent to the lease only if the borrower assigns 100 percent of the income from the lease to RHS to be applied to reduce principal and the rent to be paid is at least equal to the estimated decrease in the market value of the security.

(2) If the proposed activity is not likely to decrease the value of the security property, RHS may consent to the lease if the borrower agrees to use any damage compensation received from the lessee to repair damage to the site or dwelling, or to assign it to RHS to be applied to reduce principal.

(b) Subordination. RHS may subordinate its interests to permit a borrower to defer recapture amounts and refinance the loan, or to obtain a subsequent loan with private credit.

(1) When it is in the best interest of the Government, subordination will be permitted if:

(i) The other lender will verify that the funds will be used for purposes for which an RHS loan could be made,

(ii) The prior lien debt will be on terms and conditions that the borrower can reasonably be expected to meet without jeopardizing repayment of the RHS indebtedness,

(iii) Any proposed development will be planned and performed in accordance with 7 CFR part 1924, subpart A or directed by the other lender in a manner which is consistent with that subpart, and

(iv) An agreement is obtained in writing from the prior lienholder providing that at least 30 days prior written notice will be given to RHS before action to foreclose on the prior lien is initiated.

(2) The total amount of debt permitted when RHS subordinates its interests depends on whether the borrower pays off the RHS loan.

(i) For situations in which the borrower is obtaining a subsequent loan from another source and will not pay off the RHS debt, the prior lien debt plus the unpaid balance of all RHS loans, exclusive of recapture, will not exceed the market value of the security.

(ii) For situations in which RHS is subordinating only a deferred recapture amount, the prior lien debt plus the deferred recapture amount will not exceed the market value of the security.

(c) Partial release of security. RHS may consent to transactions affecting the security, such as sale or exchange of security property or granting of a right-of-way across the security property, and grant a partial release provided:

(1) The compensation is:

(i) For sale of the security property, cash in an amount equal to the value of the security being disposed of or rights granted.

(ii) For exchange of security property, another parcel of property acquired in exchange with value equal to or greater than that being disposed of.

(iii) For granting an easement or right-of-way, benefits derived that are equal to or greater than the value of the security property being disposed of.

(2) An appraisal must be conducted if the latest appraisal is more than 1 year old or if it does not reflect market value and the amount of consideration exceeds $5,000. The appraisal fee will be charged to the borrower.

(3) The security property, after the transaction is completed, will be an adequate but modest, decent, safe, and sanitary dwelling and related facilities.

(4) Repayment of the RHS debt will not be jeopardized.

(5) Environmental requirements are met and environmental documentation is submitted in accordance with 7 CFR part 1970.

(6) When exchange of all or part of the security is involved, title clearance are obtained before release of the existing security.

(7) Proceeds from the sale of a portion of the security property, granting an easement or right-of-way, damage compensation, and all similar transactions requiring RHS consent, will be used in the following order:

(i) To pay customary and reasonable costs related to the transaction that must be paid by the borrower.

(ii) To be applied on a prior lien debt, if any.

(iii) To be applied to RHS indebtedness or used for improvements to the security property in keeping with purposes and limitations applicable for use of RHS loan funds. Proposed development will be planned and performed in accordance with 7 CFR part 1924, subpart A and supervised to ensure that the proceeds are used as planned.

(d) Lease of security property. A borrower must notify RHS if they lease the property. If the lease is for a term of more than 3 years or contains an option to purchase, RHS may liquidate the loan. During the period of any lease, the borrower is not eligible for a payment subsidy or special servicing benefits.

§ 3550.160 Refinancing with private credit.

(a) Objective. RHS direct loan programs are not intended to supplant or compete with private credit sources. Therefore, borrowers are required to refinance RHS loans with private credit sources when RHS determines that the borrower meets RHS criteria.

(b) Criteria for refinancing with private credit. Borrowers must refinance with private credit when RHS determines that the borrower has the ability to obtain other credit at reasonable rates and terms based on their income, assets, and credit history. Reasonable rates and terms are those commercial rates and terms that borrowers are expected to meet when borrowing for similar purposes. Differences in interest rates and terms between RHS and other lenders will not be an acceptable reason for a borrower to fail to refinance with private credit if the available rates and terms are within the borrower's ability to pay.

(c) Notice of requirement to refinance with private credit. The financial status of all borrowers may be reviewed periodically to determine their ability to refinance with private credit. A borrower's financial status may be reviewed at any time if information becomes available to RHS that indicates that the borrower's circumstances have changed.

(1) A borrower undergoing review is required to supply, within 30 days of a request from RHS, sufficient financial information to enable RHS to determine the borrower's ability to refinance with private credit. Foreclosure action may be initiated against any borrower who fails to respond.

(2) When RHS determines that a borrower has the ability to refinance with private credit, the borrower will be required to refinance within 90 days.

(3) Within 30 days after being notified of the requirement to refinance with private credit, a borrower may contest the RHS decision and provide additional financial information to document an inability to refinance with private credit.

(d) Failure to refinance with private credit.

(1) If the borrower is unable to secure private credit, the borrower must submit written statements and documentation to RHS showing:

(i) The lenders contacted.

(ii) The amount of the loan requested by the borrower and the amount, if any, offered by the lenders.

(iii) The rates and terms offered by the lenders or the specific reasons why other credit is not available.

(iv) The information provided by the borrower to the lenders regarding the purpose of the loan.

(2) If RHS determines that the borrower's submission does not demonstrate the borrower's inability to refinance with private credit, or if the borrower fails to submit the required information, foreclosure may be initiated.

(e) Subordination of recapture amount. RHS may subordinate its interest in any deferred recapture amount to permit a borrower to refinance with private credit. The amount to which the RHS debt will be subordinated may include:

(1) The amount required to repay the RHS debt, exclusive of recapture,

(2) Reasonable closing costs,

(3) Up to one percent of the loan amount for loan servicing costs, if required by the lender, and

(4) The cost of any necessary repairs or improvements to the security property.

(f) Application for additional credit. A borrower who has been asked to refinance with private credit will not be considered for additional credit until the refinancing issue is resolved unless such additional credit is necessary to protect the Government's interest.

§ 3550.161 Final payment.

(a) Payment in full. Full payment of a borrower's account includes repayment of principal and outstanding interest, unauthorized assistance, recapture amounts, and charges made to the borrower's account. Any supervised funds or funds remaining in a borrower's escrow account will be applied to the borrower's account or returned to the borrower.

(b) Release of security instruments. RHS may release security instruments when full payment of all amounts owed has been received and verified. If RHS and the borrower agree to settle the account for less than the full amount owed, the security instruments may be released when all agreed-upon amounts are received and verified. Security instruments will not be released until any deferred recapture amount has been paid in full.

(c) Payoff statements. At the borrower's request, RHS will provide a written statement indicating the amount required to pay the account in full. RHS may charge a fee for statements for the same account if more than 2 statements are requested in any 30 day period.

(d) Suitable forms of payment. Suitable forms of payment are: check, money order, or bank draft. Borrowers who make cash payments will be assessed a fee to cover conversion to a money order.

(e) Recording costs. Recording costs for the release of the mortgage will be the responsibility of the borrower, except where State law requires the mortgagee to record or file the satisfaction.

§ 3550.162 Recapture.

(a) Recapture policy. Borrowers with loans approved or assumed on or after October 1, 1979, will be required to repay subsidy amounts received through payment subsidy (including the former interest credit program) or deferred mortgage assistance in accordance with paragraph (b) of this section. Amounts to be recaptured are due and payable when the borrower transfers title or ceases to occupy the property, including but not limited to, in the event of foreclosure or deed in lieu of foreclosure.

Such recapture will include the amount of principal reduction attributed to subsidy (for loans subject to recapture that were approved, and received interest credit, between October 1, 1979, and December 31, 1989), except in cases of foreclosure and deed in lieu of foreclosure.

(b) Amount to be recaptured.

(1) General. The amount to be recaptured is the amount of principal reduction attributed to subsidy plus the lesser of:

(i) The amount of subsidy received; or

(ii) A portion of the value appreciation of the property subject to recapture. In order for value appreciation to be calculated, the borrower will provide a current appraisal, including an appraisal for any capital improvements, or arm's length sales contract as evidence of market value upon Agency request. Appraisals must meet Agency standards under § 3550.62.

(2) Foreclosure or deed in lieu of foreclosure. Notwithstanding paragraph (b) (1) of this section, the amount to be recaptured in a foreclosure or deed in lieu of foreclosure is the amount of subsidy received, not including any principal reduction attributed to subsidy. Foreclosure actions will seek to recover such amounts only from the proceeds of the property. Liquidation proceeds (in the case of foreclosure) or the net recovery value (in the case of deed in lieu of foreclosure) will be applied or credited to the borrower's debt in accordance with the security agreement in the following order:

(i) Recoverable costs (e.g. protective advances, foreclosure costs, late charges).

(ii) Accrued interest.

(iii) Principal.

(iv) Subsidy.

(3) Value appreciation. The value appreciation of a property with a cross-collateralized loan is based on the market value of the dwelling and lot. If located on a farm, the lot size would be a typical lot for a single family housing property.

(4) Interest reduced from the promissory note rate to six percent under the Servicemembers Civil Relief Act (SCRA) is not subject to recapture.

(c) Deferral of recapture. If the borrower refinances or otherwise pays in full without transfer of title and continues to occupy the property, the amount of recapture will be calculated in accordance with paragraph (a) but payment of recapture may be deferred, interest free, until the property is sold or vacated. If the recapture amount is deferred, the Agency mortgage can be subordinated when in the Government's best interest but will not be released nor the promissory note satisfied until the Agency is paid in full. In situations where deferral of recapture is an option, recapture will be discounted if paid in full at the time of settlement or timely paid after Agency notification to the borrower that recapture is due.

(d) Assumed loans.

(1) When a loan subject to recapture is assumed under new rates and terms, the recapture amount may be paid in full by the seller or included in the principal amount assumed by the buyer.

(2) When a loan is assumed under the same rates and terms as the original promissory note, recapture amounts will not be due. When the new borrower transfers title or ceases to occupy the property, all subsidy subject to recapture before and after the assumption is due.

(3) When a borrower has deferred payment of recapture amounts, the deferred recapture amount may be included in the principal amount of the new loan.

§ 3550.163 Transfer of security and assumption of indebtedness.

(a) General policy. RHS mortgages contain due-on-sale clauses that generally require RHS consent before title to a security property can be transferred with an assumption of the indebtedness. If it is in the best interest of the Government, RHS will approve the transfer of title and assumption of indebtedness on program or nonprogram (NP) terms, depending on the transferee's eligibility and the property's characteristics.

(b) RHS approval of assumptions.

(1) A borrower with a loan on program terms who wishes to transfer a security property restricted by a due-on-sale clause to a purchaser who wishes to assume the debt must receive prior authorization from RHS. If RHS authorizes the transfer and assumption, the account will be serviced in the purchaser's name and the purchaser will be liable for the loan under the terms of the security instrument.

(2) If a borrower transfers title to the security property with a due-on-sale clause without obtaining RHS authorization, RHS will not approve assumption of the indebtedness, and the loan will be liquidated unless RHS determines that it is in the Government's best interest to continue the loan. If RHS decides to continue the loan, the account will be serviced in the original borrower's name and the original borrower will remain liable for the loan under the terms of the security instrument.

(c) Exceptions to due-on-sale clauses.

(1) Due-on-sale clauses are not triggered by the following types of transfers:

(i) A transfer from the borrower to a spouse or children not resulting from the death of the borrower.

(ii) A transfer to a relative, joint tenant, or tenant by the entirety resulting from the death of the borrower.

(iii) A transfer to a spouse or ex-spouse resulting from a divorce decree, legal separation agreement, or property settlement agreement.

(iv) A transfer to a person other than a deceased borrower's spouse who wishes to assume the loan for the benefit of persons who were dependent on the deceased borrower at the time of death, if the dwelling will be occupied by one or more persons who were dependent on the borrower at the time of death, and there is a reasonable prospect of repayment.

(v) A transfer into an inter vivos trust in which the borrower does not transfer rights of occupancy in the property.

(2) A transferee who obtains property through one of the types of transfer listed in paragraph (c)(1) of this section:

(i) Is not required to assume the loan, and RHS is not permitted to liquidate the loan, if the transferee continues to make scheduled payments and meet all other obligations of the loan. A transferee who does not assume the loan is not eligible for payment assistance or a moratorium.

(ii) May assume the loan on the rates and terms contained in the promissory note, with no down payment. If the account is past due at the time an assumption is executed, the account may be brought current by using any of the servicing methods discussed in subpart E of this part.

(iii) May assume the loan under new rates and terms if the transferee applies and is program-eligible.

(3) Any subsequent transfer of title, except upon death of the inheritor or between inheritors to consolidate title, will be treated as a sale.

(d) Requirements for an assumption.

(1) Loans secured by program-eligible properties to be assumed by program-eligible purchasers may be assumed on program terms. Loans secured by nonprogram properties and loans to be assumed by purchasers who are not eligible for program terms may be assumed on NP terms.

(2) The amount the transferee will assume will be either the current market value less any prior liens and any required down payment, or the indebtedness, whichever is less.

(3) For loans assumed on program terms, the interest rate charged by RHS will be the rate in effect at loan approval or loan closing, whichever is lower. For loans assumed on nonprogram terms, the interest rate charged by RS will be the rate in effect at the time of loan approval.

(4) If additional financing is required to purchase the property or to make repairs, RHS may approve a subsequent loan under subparts B or C of this part.

(5) If an appraisal is required for an assumption on new terms, the purchaser is responsible for the appraisal fee.

(6) If all or a portion of the borrower's account balance is assumed, the borrower and cosigner, if any, will be released from liability on the amount of the indebtedness assumed. If an account balance remains after the assumption, RHS may pursue debt settlement in accordance with subpart F of this part.

(7) Unless it is in the Government's best interest, RHS will not approve an assumption of a secured loan if the seller fails to repay any unsecured RHS loan.

(8) If a loan is secured by a property with a dwelling situated on more than a minimum adequate site and the excess property cannot be sold separately as a minimum adequate site for another dwelling, RHS may approve a transfer of the entire property. If the excess property can be sold separately as a minimum adequate site, RHS will approve assumption of only the dwelling and the minimum adequate site. If the value of the dwelling on the minimum adequate site is less than the amount of the outstanding RHS debt, the remaining debt will be secured by the excess property. The outstanding debt will be converted to an NP loan and reamortized over a period not to exceed 10 years or the final due date of the original promissory note, whichever is sooner.

§ 3550.164 Unauthorized assistance.

(a) Definition. Unauthorized assistance includes any loan, payment subsidy, deferred mortgage payment, or grant for which the recipient was not eligible.

(b) Unauthorized assistance due to false information.

(1) False information includes information that the recipient knew was incorrect or should have know was incorrect that was provided or omitted for the purposes of obtaining assistance for which the recipient was not eligible.

(2) If the recipient receives an unauthorized loan due to false information, RHS will adjust the account using the NP interest rate that was in effect when the loan was approved. The recipient must pay the account in full within 30 days.

(3) If the recipient receives unauthorized subsidy due to false information, RHS will require the recipient to repay it within 30 days. The account cannot be reamortized to include the unauthorized subsidy. If the recipient repays the unauthorized subsidy, the loan may be continued.

(c) Unauthorized assistance due to inaccurate information.

(1) Inaccurate information includes incorrect information inadvertently provided, used, or omitted without the intent to obtain benefits for which the recipient was not eligible.

(2) RHS will permit a recipient who receives an unauthorized loan due to inaccurate information to retain the loan under the following conditions.

(i) If the inaccurate information was related to the purpose of the loan or the recipient's eligibility, with the exception of income, or the income used was incorrect, but the recipient still qualified as income-eligible, RHS will allow the recipient to continue the loan on existing terms.

(ii) If a section 502 recipient's income was above the moderate-income level, RHS will convert the loan to an NP loan, using the nonprogram interest rate in effect on the date the loan was approved.

(iii) If a section 504 recipient's income was above the very low-income level, RHS will apply the applicable 502 or nonprogram interest rate in effect on the date the loan was approved.

(iv) If an incorrect interest rate was used, RHS will adjust the account using the correct interest rate.

(3) If the recipient receives unauthorized subsidy due to inaccurate information, RHS will require the recipient to repay it within 30 days. If the recipient cannot repay it within 30 days, the account may be reamortized. If the recipient repays the unauthorized subsidy or reamortizes the loan, the loan may be continued.

(d) Unauthorized grants. Recipients may either repay the unauthorized assistance in a lump sum or execute a promissory note, regardless of whether the unauthorized assistance was due to false or inaccurate information. RHS may seek a judgment if the recipient refuses to repay the unauthorized assistance.

(e) Account servicing. RHS will adjust all accounts retroactively to establish the amount of unauthorized assistance. If the recipient does not repay the unauthorized assistance within 30 days, RHS may accelerate the loan. If the unauthorized assistance is due to inaccurate information and the recipient is unable to repay within 30 days, RHS may reamortize the loan.

(f) Accounts with no security. If an unauthorized loan or grant is unsecured, RHS may seek the best mortgage obtainable.

§§ 3550.165 - 3550.199 [Reserved]

§ 3550.200 OMB control number.

The information collection requirements contained in this regulation have been approved by the Office of Management and Budget (OMB) and have been assigned OMB control number 0575-0172. Public reporting burden for this collection of information is estimated to vary from 5 minutes to 3 hours per response, with an average of 1 1/2 hours per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. You are not required to respond to this collection of information unless it displays a currently valid OMB control number.

Subpart E - Special Servicing

§ 3550.201 Purpose of special servicing actions.

The Rural Housing Service (RHS) may approve special servicing actions to reduce the number of borrower failures that result in liquidation. Borrowers who have difficulty keeping their accounts current may be eligible for one or more available servicing options including: payment assistance; delinquency workout agreements that temporarily modify payment terms; protective advances of funds for taxes, insurance, and other approved costs; and payment moratoriums.

§ 3550.202 Past due accounts.

An account is past due if the scheduled payment is not received by the due date.

(a) Late fee. A late fee will be assessed if the full scheduled payment is not received by the 15th day after the due date, or as authorized by State law.

(b) Liquidation.

(1) For borrowers with monthly payments. The account may be accelerated without further servicing when at least 3 scheduled payments are past due or an amount equal to at least 2 scheduled payments is past due for at least 3 consecutive months. In such cases RHS may pursue voluntary liquidation and foreclosure.

(2) For borrowers with annual payments. The account may be accelerated without further servicing when at least 3/12ths of 1 scheduled payment has not been received by its due date. In such cases, RHS may pursue voluntary liquidation and foreclosure.

(3) Subsidy recapture. Acceleration under this section will take into account any subsidy recapture due under § 3550.162.

§ 3550.203 General servicing actions.

Whenever any of the servicing actions described in this subpart result in reamortization of the account RHS may:

(a) Require a borrower who currently makes annual payments, but receives a monthly income, to convert to monthly payments.

(b) Require the creation and funding of an escrow account for real estate taxes and insurance, if one does not already exist for any borrower with monthly payments.

(c) Convert the method of calculating interest for any account being charged daily simple interest to an amortized payment schedule.

§ 3550.204 Payment assistance.

Borrowers who are eligible may be offered payment assistance in accordance with subpart B of this part. Borrowers who are not eligible for payment assistance because the loan was approved before August 1, 1968, or the loan was made on above-moderate or nonprogram (NP) terms, may refinance the loan in order to obtain payment assistance if:

(a) The borrower is eligible to receive a loan with payment assistance,

(b) Due to circumstances beyond the borrower's control, the borrower is in danger of losing the property, and

(c) The property is program-eligible.

§ 3550.205 Delinquency workout agreements.

Borrowers with past due accounts may be offered the opportunity to avoid liquidation by entering into a delinquency workout agreement that specifies a plan for bringing the account current. To receive a delinquency workout agreement, the following requirements apply:

(a) A borrower who is able to do so will be required to pay the past-due amount in a single payment.

(b) A borrower who is unable to pay the past-due amount in a single payment must pay monthly all scheduled payments plus an agreed upon additional amount that brings the account current within 2 years or the remaining term of the loan, whichever is shorter.

(c) If a borrower becomes more than 30 days past due under the terms of a delinquency workout agreement, RHS may cancel the agreement.

§ 3550.206 Protective advances.

RHS may pay for fees or services and charge the cost against the borrower's account to protect the Government's interest.

(a) Advances for taxes and insurance. RHS may advance funds to pay real estate taxes, hazard and flood insurance premiums, and other related costs, as well as amounts needed to fund the current escrow cycle.

(b) Advances for costs other than taxes and insurance. Protective advances for costs other than taxes and insurance, such as emergency repairs, will be made only if the borrower cannot obtain a subsequent loan.

(c) Repayment arrangements.

(1) Advances for borrowers with multiple loans will be charged against the largest loan.

(2) Amounts advanced will be due with the next scheduled payment. RHS may schedule repayment consistent with the borrower's ability to repay or reamortize the loan.

(3) Advances will bear interest at the promissory note rate of the loan to which the advance was charged.

§ 3550.207 Payment moratorium.

RHS may defer a borrower's scheduled payments for up to 2 years. NP borrowers are not eligible for a payment moratorium.

(a) Borrower eligibility. For a borrower to be eligible for a moratorium, all of the following conditions must be met:

(1) Due to circumstances beyond the borrower's control, the borrower is temporarily unable to continue making scheduled payments because:

(i) The borrower's repayment income fell by at least 20 percent within the past 12 months,

(ii) The borrower must pay unexpected and unreimbursed expenses resulting from the illness, injury, or death of the borrower or a family member, or

(iii) The borrower must pay unexpected and unreimbursed expenses resulting from damage to the security property in cases where adequate hazard insurance was not available or was prohibitively expensive.

(2) The borrower occupies the dwelling, unless RHS determines that it is uninhabitable.

(3) The borrower's account is not currently accelerated.

(b) Reviews of borrower eligibility.

(1) Periodically RHS may require the borrower to submit financial information to demonstrate that the moratorium should be continued. The moratorium may be canceled if:

(i) The borrower does not respond to a request for financial information,

(ii) RHS receives information indicating that the moratorium is no longer required, or

(iii) In the case of a moratorium granted to pay unexpected or unreimbursed expenses, the borrower cannot show that an amount at least equal to the deferred payments has been applied toward the expenses.

(2) At least 30 days before the moratorium is scheduled to expire, RHS will require the borrower to provide financial information needed to determine whether the borrower is able to resume making scheduled payments.

(c) Resumption of scheduled payments. When the borrower is able to resume scheduled payments, the loan will be reamortized to include the amount deferred during the moratorium and the borrower will be required to escrow. If the new monthly payment, after consideration of the maximum amount of payment subsidy available to the borrower, exceeds the borrower's repayment ability, all or part of the interest that has accrued during the moratorium may be forgiven.

(d) Borrowers unable to resume scheduled payments. If even after all appropriate servicing actions have been taken the borrower is unable to resume making scheduled payments after 2 consecutive years of being on a moratorium, the account will be liquidated.

§ 3550.208 Reamortization using promissory note interest rate.

Reamortization using the promissory note interest rate may be authorized when RHS determines that reamortization is required to enable the borrower to meet scheduled obligations, and only if the Government's lien priority is not adversely affected.

(a) Permitted uses. Reamortization at the promissory note interest rate may be used to accomplish a variety of servicing actions, including to:

(1) Repay unauthorized assistance due to inaccurate information.

(2) Repay principal and interest accrued and advances made during a moratorium.

(3) Bring current an account under a delinquency workout agreement after the borrower has demonstrated the willingness and ability to meet the terms of the loan and delinquency workout agreement and reamortization is in the borrower's and Government's best interests.

(4) Bring a delinquent account current in the case of an assumption where the due on sale clause is not triggered as described in § 3550.163(c).

(5) Cover the remaining debt when a portion of the security property is being transferred but the acquisition price does not cover the outstanding debt. The remaining balance will be reamortized for a period not to exceed 10 years or the final due date of the note being reamortized, whichever is sooner.

§ 3550.208 (a) (Con.)

(6) Bring an account current where the National Appeals Division (NAD) reverses an adverse action, the borrower has adequate repayment ability, and RHS determines the reamortization is in the best interests of the Government and the borrower.

(b) Payment term of reamortized loan. Except as noted in paragraph (a)(5) of this section, the term of the reamortized loan may be extended to the maximum term for which the borrower was eligible at the time the loan was originally made, less the number of years the loan has been outstanding. In all cases, the term must not exceed the remaining security life of the property.

§ 3550.209 [Reserved]

§ 3550.210 Offsets.

Any money that is or may become payable from the United States to an RHS borrower may be subject to administrative, salary, or Internal Revenue Service (IRS) offsets for the collection of a debt owed to RHS.

(a) IRS offset. RHS may take action to effect offset of claims due RHS against tax refunds due to RHS debtors under 31 U.S.C. 3720a and 31 CFR 285.2.

(b) Salary offset. Offset of claims due to RHS may be collected pursuant to the salary offset provisions in 7 CFR part 3, subpart C for a federal employee or other persons covered in that subpart.

(c) Administrative offset. RHS may take action to effect administrative offset to recover delinquent claims due to it in accordance with the procedures in 7 CFR part 3, subpart B.

(d) Offset by other federal agencies. Escrow funds and loan and grant funds held or payable by RHS are not subject to offset by other federal agencies.

§ 3550.211 Liquidation.

(a) Policy. When RHS determines that a borrower is unable or unwilling to meet loan obligations, RHS may accelerate the loan and, if necessary, acquire the security property. The borrower is responsible for all expenses associated with liquidation and acquisition. If the account is satisfied in full, the borrower will be released from liability. RHS may pursue any deficiency unless the borrower received a moratorium at any time during the life of the loan and faithfully tried to repay the loan.

(b) Tribal allotted or trust land. Liquidations involving a security interest in tribal allotted or trust land shall only be pursued after offering to transfer the account to an eligible tribal member, the tribe, or the Indian Housing Authority. Forced liquidation of RHS security interests in Indian trust lands or on tribal allotted land will be recommended only after the State Director has determined it is in the best interest of the Government.

(c) Acceleration and foreclosure. If RHS determines that foreclosure is in the best interest of the Government, RHS will send an acceleration notice to each borrower and any cosigner.

(d) Voluntary liquidation. After acceleration, borrowers may voluntarily liquidate through:

(1) Refinancing or sale. The borrower may refinance or sell the security property for at least net recovery value and apply the proceeds to the account.

(2) Deed in lieu of foreclosure. RHS may accept a deed in lieu of foreclosure to convey title to the security property only after the debt has been accelerated and when it is in the Government's best interest.

(3) Offer by third party. If a junior lienholder or cosigner makes an offer in the amount of at least the net recovery value, RHS may assign the note and mortgage.

(e) Bankruptcy.

(1) When a petition in bankruptcy is filed by a borrower after acceleration, collection actions and foreclosure actions are suspended in accordance with the provisions of the Bankruptcy Code.

(2) RHS may accept conveyance of security property by the trustee in bankruptcy if the Bankruptcy Court has approved the transaction, RHS determines the conveyance is in the best interest of the Government, and RHS will acquire title free of all liens and encumbrances except RHS liens.

(3) Whenever possible in a Chapter 7 Bankruptcy, a reaffirmation agreement will be signed by the borrower and approved by the court prior to discharge, if RHS decides to continue with the borrower.

(f) Junior lienholder foreclosure. When a junior lienholder foreclosure does not result in payment in full of the RHS debt but the property is sold subject to the RHS lien, RHS may liquidate the account unless the new owner is eligible to assume the RHS debt and actually assumes the RHS debt.

(g) Payment subsidy. If the borrower is receiving payment subsidy, the payment subsidy agreement will not be canceled when the debt is accelerated, but will not be renewed unless the account is reinstated.

(h) Eligibility for special servicing actions. A borrower is not eligible for special servicing actions once the account has been accelerated.

(i) Reporting. RHS may report to IRS and credit reporting agencies any debt settled through liquidation.

§§ 3550.212 - 3550.249 [Reserved]

§ 3550.250 OMB control number.

The information collection requirements contained in this regulation have been approved by the Office of Management and Budget (OMB) and have been assigned OMB control number 0575-0172. Public reporting burden for this collection of information is estimated to vary from 5 minutes to 3 hours per response, with an average of 1 1/2 hours per response, including time for reviewing insurrections, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. You are not required to respond to this collection of information unless it displays a currently valid OMB control number.

Subpart F - Post-Servicing Actions

§ 3550.251 Property management and disposition.

(a) Policy. Rural Housing Service (RHS) will manage custodial property and Real Estate Owned (REO) property to protect the Government's interest, and may dispose of REO property through direct sales, sealed bid, or auction. RHS will follow affirmative fair housing marketing policies.

(b) Custodial property. RHS may take custodial possession of security property that has been abandoned, or for other reasons necessary to protect the Government's security. After taking custodial possession of a security property, RHS may maintain and repair the security property as needed to protect the Government's interest, pay required real estate taxes and assessments, and secure personal property left on the premises. Expenses will be charged to the borrower's account. Custodial property may be leased when it is in the Government's best interest and in such cases the borrower's account will be credited for income from the security property.

(c) REO property.

(1) Classification. When RHS takes title to a security property, it is classified as either program or nonprogram (NP) property. An REO property that is eligible for financing under the section 502 program, or which could reasonably be repaired to be eligible, is classified as program property. An REO property that cannot reasonably be repaired to be eligible as section 502 property, and property that has been improved to a point that it will no longer qualify as modest under section 502, is classified as NP property.

(2) Disclosing decent, safe, and sanitary defects. When RHS determines that an REO property to be sold is not decent, safe, and sanitary, or does not meet cost-effective energy conservation standards, it will disclose the reasons why. The deed by which such an REO property is conveyed will contain a covenant restricting it from residential use until it is decent, safe, and sanitary and meets the RHS cost-effective energy conservation standards. RHS will also notify any potential purchaser of any known lead-based paint hazards.

(3) Property on Indian tribal allotted or trust land. REO property which is located on Indian tribal allotted or trust land, will be sold or otherwise disposed of only to a member of the particular tribe having jurisdiction over the allotted or tribal land, to the tribe, or to an Indian housing authority serving the tribe on a first-come, first-served basis.

(4) Reservation of program REO properties.

(i) Program REO properties are reserved for eligible direct or guaranteed single family housing loans under this part or part 1980, subpart D of this title and nonprofit organizations or public bodies providing transitional housing during the first 60 days after the date of the first notice of sale, and during the first 30 days following any reduction in price or any other change in credit terms or other sale terms. After the expiration of a reservation period, program REO properties can be bought by any buyer.

(ii) An offer on a program REO property from a buyer who does not qualify for a direct or guaranteed single family housing loan may be submitted during a reservation period, but is considered to have been received on the day after the reservation period ends.

(iii) No offer is considered until 3 business days after the date the property is offered for sale. An offer received during the 3-day holding period is not considered until the 4th day, and is evaluated with any other offers actually received on the 4th day.

(5) Priority of offers received the same day.

(i) Offers received on the same business day are selected in the following order:

(A) Offers from eligible direct or guaranteed single family housing loan applicants, with a request for credit on program terms. All offers are evaluated as if they were submitted at the listed price, regardless of the offering price.

(B) Offers from nonprofits or public bodies for conversion to use as transitional housing or for other special purposes as specified in paragraph (d)(4) of this section.

(C) Cash offers, from highest to lowest.

(D) NP credit offers, from highest to lowest.

(ii) Acceptable offers of equal priority received on the same business day are selected by lot.

(iii) REO properties are not held off the market pending the outcome of an appeal of RHS rejection of a request for financing.

(6) Sale by sealed bid or auction. RHS may authorize the sale of an REO property by sealed bid or public auction when it is in the best interest of the Government. RHS will publicly solicit requests for sealed bids and publicize auctions. If a successful bidder is unable to settle the transaction under the terms of the offer, except for the financing contingency, any required bid deposit may be retained by RHS. If the highest bid is lower than the minimum acceptable bid established by RHS, or if no acceptable bids are received, RHS may negotiate a sale without further public notice.

(d) Special purposes.

(1) REO property may be purchased for conversion to multiple family housing.

(2) When a nonprofit organization or public body notifies RHS in writing of its intent to buy an REO property to provide transitional housing for the homeless, RHS may withdraw the property from the market for up to 30 days to give the entity an opportunity to execute a purchase contract. The listed price may be discounted for offers on a nonprogram REO property at any time, and on a program REO property after the 60-day reservation period. No down payment is required, and the loan term will be for a maximum of 30 years. Until RHS executes a sales agreement, an offer from a program-eligible applicant will receive priority, regardless of a nonprofit's interest in purchasing the REO property for use as transitional housing.

(3) NP properties may be leased to a nonprofit organization or public body to provide transitional housing for the homeless at an annual cost of one dollar. When an REO property is to be leased as transitional housing, RHS will make repairs needed to put the property in decent, safe, and sanitary condition. The lessee is responsible for all future repairs and maintenance.

(4) REO property may be sold under special provisions to nonprofit organizations or public bodies for the purpose of providing affordable housing to very low- and low-income families.

§ 3550.252 Debt settlement policies.

(a) Applicability. Debt settlement procedures may be initiated to collect any amounts due to RHS including:

(1) Balances remaining on loan accounts after all liquidation proceeds or credits have been applied,

(2) Subsidy recapture or grant amounts due, and

(3) Unauthorized assistance due.

(b) Judgment. RHS may seek a judgment whenever a judgment might enable RHS to collect all or a significant portion of an amount owed.

(c) Multiple loans. RHS does not settle debts for one loan while other RHS loans on the same security property remain active.

(d) Cosigners and claims against estates. RHS may use any and all remedies available under law to collect from any cosigner and from a deceased borrower's estate.

(e) Reporting. RHS will report to the Internal Revenue Service and credit reporting agencies any debt settled through cancellation, compromise, or adjustment.

(f) Settlement during legal or investigative action. Cases that are under investigation for fiscal irregularity or have been referred to the Office of the Inspector General, the Office of the General Counsel, or the U.S. Attorney will not be considered for debt settlement until final action by the investigating or prosecuting entity has been taken.

(g) Offsets. RHS may request offsets as described in § 3550.210 to collect amounts owed.

(h) Escrow funds. At liquidation all funds held in escrow or unapplied funds will be applied against the debt.

§ 3550.253 Settlement of a debt by compromise or adjustment.

Compromise or adjustment offers may be initiated by the debtor or by RHS. RHS will approve only those compromises and adjustments that are in the best interest of the Government.

(a) Compromise. A compromise is an agreement by RHS to release a debtor from liability upon receipt of a specified lump sum that is less than the total amount due.

(b) Adjustments. An adjustment is an agreement by RHS to release a debtor from liability generally upon receipt of an initial lump sum representing the maximum amount the debtor can afford to pay and periodic additional payments over a period of up to 5 years.

(c) Timing of offers.

(1) For a settlement offer to be considered, secured debts must be fully matured under the terms of the debt instrument or must have been accelerated by RHS.

(2) Unsecured debts owed after the sale of the security property may be proposed for compromise or adjustment at any time. Debts that were never secured may be proposed for compromise or adjustment when they are due and payable.

(d) Retention of security property. The debtor may retain the security property if the compromise payment is at least equal to the net recovery value, and it is in the best interest of the Government to allow the debtor to retain the security property.

§§ 3550.254 - 3550.299 [Reserved]

§ 3550.300 OMB control number.

The information collection requirements contained in this regulation have been approved by the Office of Management and Budget (OMB) and have been assigned OMB control number 0575-0172. Public reporting burden for this collection of information is estimated to vary from 5 minutes to 3 hours per response, with an average of 1 1/2 hours per response, including time for review instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

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APPENDIX 2
FORMS AND CERTIFICATIONS REFERENCED IN THIS HANDBOOK

FORMS

AD 1048, Certification Regarding Debarment, Suspension, Ineligibility, and Other Voluntary Exclusions – Lower Tier Covered Transactions
FEMA's Standard Flood Hazard Determination
FEMA's Elevation Certificate
Form RD 400-1, Equal Opportunity Agreement
Form RD 400-3, Notice to Contractors and Applicants
Form RD 400-6, Compliance Statement
Form RD 402-1, Deposit Agreement
Form RD 402-2, Statement of Deposits and Withdrawals
Form RD 410-4, Application for Rural Housing Assistance (Nonfarm Tract), Uniform Residential Loan Application
Form RD 410-8, Applicant Reference Letter
Form 1007, Marshall and Swift Square Foot Appraisal Form
Form RD 1910-5, Request for Verification of Employment
Form RD 1922-12, Nonfarm Tract Comparable Sales Data
Form RD 1922-14, Residential Appraisal Review for Single Family Housing
Form RD 1922-15, Administrative Appraisal Review for Single Family Housing
Form RD 1924-1, Development Plan
Form RD 1924-2, Description of Materials
Form RD 1924-6, Construction Contract
Form RD 1924-7, Contract Change Order
Form RD 1924-9, Certification of Contractor's Release
Form RD 1924-10, Release by Claimants
Form RD 1924-12, Inspection Report
Form RD 1924-16, Record of Pre-Construction Conference
Form RD 1924-19, Builder's Warranty
Form RD 1924-25, Plan Certification
Form RD 1927-4, Transmittal of Title Information
Form RD 1927-5, Affidavit Regarding Work of Improvement
Form RD 1927-8, Agreement with Prior Lienholder
Form RD 1927-9, Preliminary Title Opinion
Form RD 1927-19, Certification of Attorney
Form RD 1927-20, Certification of Title Insurance Company
Form RD 1940-16, Promissory Note
Form RD 1940-43, Notice of Right to Cancel
Form RD 1944-4, Certification of Disability or Handicap

Form RD 1944-5, Manufactured Housing Dealer-Contractor Application
Form RD 1944-6, Interest Credit Agreement
Form RD 1944-11, Conditional Commitment
Form RD 1944-14, Payment Assistance/Deferred Mortgage Assistance Agreement
Form RD 1944-36, Application for Conditional Commitment
Form RD 1944-59, Certificate of Eligibility
Form RD 1944-60, Landlord's Verification
Form RD 1944-61, Credit History Worksheet
Form RD 1944-62, Request for Verification of Deposit
Form RD 1955-2, Report on Real Estate Problem Case
Form RD 1955-20, Lease of Real Property
Form RD 1955-42, Open Real Property Master Listing Agreement
Form RD 1955-43, Notice of Real Property for Sale (Single Family Housing)
Form RD 1955-44, Notice of Residential Occupancy Restriction
Form RD 1955-45, Standard Sales Contract, Sale of Real Property by the United States
Form RD 1955-46, Invitation, Bid, and Acceptable Sale of Real Property by the United States
Form RD 1955-47, Bill of Sale 'A'
Form RD 1955-49, Quitclaim Deed
Form RD 1955-50, Advice of Inventory Property Sold
Form RD 1955-50A, Advice of Inventory Property Sold-Credit Sale
Form RD 1955-50B, Advice of Inventory Property Sold-Cash Sale/Transfer--Acquired Property
Form RD 3550-1, Authorization to Release Information
Form RD 3550-2, Request for Verification of Gift/Gift Letter
Form RD 3550-4, Employment and Asset Certification
Form RD 3550-6, Notice of Special Flood Hazards, Flood Insurance Purchase Requirements, and Availability of Federal Disaster Relief Assistance
Form RD 3550-7, Funding Commitment and Notification of Loan Closing
Form RD 3550-9, Initial Escrow Account Disclosure Statement
Form RD 3550-10, Condominium Rider
Form RD 3550-11, Planned Unit Development (PUD) Rider
Form RD 3550-12, Subsidy Repayment Agreement
Form RD 3550-14, Real Estate Mortgage or Deed of Trust for (State)
Form RD 3550-15, Tax Information
Form RD 3550-16, Release from Personal Liability
Form RD 3550-17, Funds Transmittal Report
Form RD 3550-19, Transmittal-Closing Documents
Form RD 3550-22, Assumption Agreement, Single Family Housing
Form RD 3550-23, Applicant Orientation Guide
Form RD 3550-24, Grant Agreement
Form RD 3550-25, Loan Closing Instructions and Loan Closing Statement
Form RD 3550-27, Substitute Payment Coupon
Form RD 3550-30, Verification of Debt Proposed for Refinancing
Form RD 3550-34, Option to Purchase Real Property
Authorization Agreement for Preauthorized Payments
ASTM E-1528, Transaction Screen Questionnaire Loan Estimate
Closing Disclosure
Internal Revenue Service Form 4506-T, Request for Transcript of Tax Return
U.S. Citizenship and Immigration Services Form G-845, Document Verification Request
Social Security Administration Form SSA-3288, Consent for Release of Information

CERTIFICATIONS

Verification of Pensions and Annuities
Verification of Student Income and Expenses
Verification of Medical Expenses
Verification of Social Security Benefits
Verification of Public Assistance
Verification of Child/Dependent Care
Verification of Unemployment Benefits
Verification of Business Expenses
Verification of Support Payments
Record of Oral Verification

APPENDIX 3

HANDBOOK LETTERS REFERENCED IN THIS HANDBOOK

Handbook Letter 1(3550), Moderate Income Options

Handbook Letter 2(3550), Funds Not Available

Handbook Letter 3(3550), Waiting Period

Handbook Letter 4(3550), Funds Not Available – Certificate of Eligibility and/or Property Identified

Handbook Letter 5(3550), Cover Letter to Truth in Lending Disclosure

Handbook Letter 10(3550), Status of Offer to Buy Single Family Housing REO Property

Handbook Letter 11(3550), Request Information

Handbook Letter 12(3550), Notification of Approval (504 Grant and/or Loan)

Handbook Letter 15(3550), Standardized Adverse Decision Letter

Handbook Letter 16(3550), Eligibility of Self-Help Applicants

Handbook Letter 17(3550), Adverse Decision Involving An Appraisal

Handbook Letter 18(3550), Unfavorable Decision After State Director Review Of An Appraisal

Handbook Letter 19(3550), Pre-qualification Review

Handbook Letter 20(3550), Response to Request to Sale for Less Than the Debt

REFERENCE: Field Office Handbook Chapter 3

SUBJECT: Moderate Income Options

Date: [insert today's date]

[insert applicant(s) first/mi/last name(s) (Mr., Mrs., Ms.)]
[insert applicant(s) street/post office address]
[insert city, state, and zip code]

Dear [insert applicant last name(s) (Mr., Mrs., Ms.)]:

Information obtained while processing your application for Rural Development loan assistance indicates that your adjusted annual household income exceeds the maximum low-income limit for this area, which is $(insert the applicable income limit). If this information is correct, the following options are available to you in obtaining housing:

1. Sale of Real Estate Owned (REO) Property. This is the sale of a property that is owned by the Government. Rural Development acquires title to properties periodically and welcomes you to visit (insert https://properties.sc.egov.usda.gov/resales/public/home if a decentralized state or insert https://listings.vrmco.com if a centralized state) to view the changing availability of properties.

2. A transfer and assumption of an existing Rural Development loan. You may assume the unpaid balance of a loan from a Rural Development borrower whose property is for sale. Equity or repairs would need to be paid for with cash provided by you.

3. A Guaranteed Rural Housing loan. If you wish to learn more about this program and obtain a list of participating lenders, please contact this office at (insert field office address).

4. Other credit. You may wish to pursue financing through a private lending institution.

Applications for the purchase of an REO property or loan transfer and assumption are given funding priority. If you are interested in a specific REO property or loan transfer and believe you can meet the conditions outlined above, you should notify this office within 15 days of receipt of this letter. If we do not hear from you within the specified time frame, your application will be withdrawn. Please refer to Attachment 1-C in this letter regarding your ability to have the decision further reviewed.

Sincerely,

(insert name of the Loan Originator)
(insert title of the Loan Originator)

Attachment
[Attachment 1-C of Chapter 1]

REFERENCE: Field Office Handbook Chapter 3

SUBJECT: Funds Not Available

Date: [insert today's date]

[insert applicant(s) first/mi/last name(s) (Mr., Mrs., Ms.)]
[insert applicant(s) street/post office address]
[insert city, state, and zip code]

Dear [insert applicant last name(s) (Mr., Mrs., Ms.)]:

Rural Development cannot continue to process your application at this time due to the lack of availability of funds for households within your income category. However, based on a review of your verified credit and financial information, you have been determined eligible for loan services through this Agency. The approximate waiting period before funds may be available to consider your loan request is (insert approximate days/months funds will be available).

Once funding is available to consider your loan request, we will notify you with further instructions. You may be asked to provide the Agency with updated information so that we can confirm your continued eligibility.

Please be advised that Rural Development has a homeownership education requirement for first-time homebuyers. If you are a first-time homebuyer, you will be required to provide documentation of completion of an acceptable homeownership education course. Documentation must be in the form of a certificate of completion or letter from the provider of the homeownership education. Our office can assist you in locating an acceptable provider. We strongly encourage that applicants look into and take the training early in the process. In the meantime, **do not** incur debts for items such as a building site, or the repair, purchase, or construction of a home; there is no guarantee that the Agency will extend you financing.

If you are planning to assume the unpaid balance of a loan from an existing Rural Development borrower or purchase a Government Real Estate Owned property, you should advise this office. These transactions can be processed without delay. You may also wish to discuss eligibility requirements for the Guaranteed Rural Housing loan.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Sincerely,

[insert name of Loan Approval Official]
[insert title of Loan Approval Official]

REFERENCE: Field Office Handbook Chapter 3

SUBJECT: Waiting Period

Date: [insert today's date]

[insert applicant(s) first/mi/last name(s) (Mr., Mrs., Ms.)]
[insert applicant(s) street/post office address]
[insert city, state, and zip code]

Dear [insert applicant last name(s) (Mr., Mrs., Ms.)]:

The rural housing application that you submitted to Rural Development on [insert receipt date] remains active.

However, resources are still currently unavailable to consider your loan request. The approximate waiting period is now [insert # of months/days].

Please complete the enclosed form if you are still interested in Rural Development assistance and update your current address and telephone number. Your failure to return the enclosed form to this office within 15 days of the date of this letter will result in the withdrawal of your application. If your application is withdrawn, you may reapply.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

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Feel free to contact this office at [insert phone number] if you have any questions.

Sincerely,

[insert name of Loan Approval Official]
[insert title of Loan Approval Official]

Enclosure

TO: [insert name and address of applicable Rural Development field office]

I am still interested in receiving rural housing assistance through Rural Development. Please keep my application active. My current address and telephone number are as follows:

Name:_____
(Please print)

Address:_____
(Street/Post Office Address)

_____
(City, State, and Zip Code)

Telephone: _____
(Please include area code)

THIS INFORMATION **HAS___/HAS NOT___**CHANGED SINCE YOU LAST CONTACTED ME. (Please check either "has" or "has not" above.)

Signed by:_____Date:_____
Applicant

Signed by:_____Date:_____
Applicant

Note: If you wish to have your application remain on file, please complete this form, sign and date it, then return it to the Rural Development office processing your loan application. Your response must be received within 15 days from the date on the attached letter of ***[insert today's date]*****.**

Handbook Letter 4 (3550)

REFERENCE: Field Office Handbook Chapter 3

SUBJECT: Funds Not Available – Certificate of Eligibility and/or Property Identified

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Date: [insert today's date]

[insert applicant(s) first/mi/last name(s) (Mr., Mrs., Ms.)]
[insert applicant(s) street/post office address]
[insert city, state, and zip code]

Dear [insert applicant last name(s) (Mr., Mrs., Ms.)]:

You are receiving this letter because you have been deemed eligible for Rural Development assistance and:

- ☐ You have been issued a Certificate of Eligibility (COE).
- ☐ You have submitted a purchase agreement or sales contract for a property.

Unfortunately, Rural Development cannot continue processing your application at this time due to a temporary lack of funds for households within your income category. You should immediately:

- ☐ Stop searching for a property unless you find a seller who is willing to agree to a closing date that is at least 30 days beyond the approximate waiting period listed below.
- ☐ Speak with the seller about extending the closing date to at least 30 days beyond the approximate waiting period listed below. If the seller is willing to extend the closing date, please submit a copy of the addendum to the contract to Rural Development.

The approximate waiting period before funds may be available to consider your loan request is [insert approximate days/months funds will be available]. We will notify you once funding is available to consider your loan request.

If you are planning to assume the unpaid balance of a loan from an existing Rural Development borrower or purchase an Agency Real Estate Owned property, you should advise this office. These transactions can be processed without delay.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Sincerely,

[insert name of Loan Approval Official]
[insert title of Loan Approval Official]

REFERENCE: Field Office Handbook Chapter 3

SUBJECT: Cover Letter to Truth in Lending Disclosure

Date: [insert today's date]

[insert applicant(s) first/mi/last name(s) (Mr., Mrs., Ms.)]
[insert applicant(s) street/post office address]
[insert city, state, and zip code]

Dear [insert applicant last name(s) (Mr., Mrs., Ms.)]:

Thank you for submitting an application for a single family housing loan in the amount of (insert the loan amount as shown on the Loan Estimate). In accordance with the Integrated Mortgage Disclosures under the Real Estate Settlement Procedures Act and the Truth in Lending Act, the following is provided:

- *The Loan Estimate Disclosure*. This document is provided to show the maximum costs associated with the loan product; the final costs may be lower. If there is a change in circumstances, such as a change in the loan amount, a revised Loan Estimate may be issued. The payment amount does not reflect any possible payment assistance nor does the issuance of a Loan Estimate constitute an approval of a loan.

- *A List of Settlement Service Providers*. These providers are not endorsed by or affiliated with Rural Development and applicants may select service providers not on this list.

- *The Consumer Financial Protection Bureau Booklet, "Your home loan toolkit: A step-by-step guide"*.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this credit is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, DC 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms of conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, DC 20410 or call (800) 669-9777.

If you have any questions or need further information, please contact this office at (insert field office address).

Sincerely,

(insert name of the Loan Originator)
(insert title of the Loan Originator)

Handbook Letter 10 (3550)

REFERENCE: Field Office Handbook Chapter 16

SUBJECT: Status of Offer to Buy Single Family Housing REO Property

Date: [insert today's date]

[insert applicant(s) first/mi/last name(s) (Mr., Mrs., Ms.)]
[insert applicant(s) street/post office address]
[insert city, state, and zip code]

Dear [insert applicant last name(s) (Mr., Mrs., Ms.)]:

Regarding your offer to purchase the above-referenced REO property, please be advised that:

_____ 1. Your offer has been accepted. Please contact this office to discuss proceeding with the transaction.
_____ 2. Another offer has been accepted, however, your offer is being held as a back-up offer.
_____ 3. The property is reserved for exclusive purchase by program applicants for the first 60 days after listing and for 30 days after any reduction in price. Your offer will be considered after this period if no acceptable offer from a program applicant is received.
_____ 4. Your offer could not be accepted for the following reason(s):
_____ Less than the listed sale price.
_____ An offer from a program applicant has been accepted.
_____ Another offer has already been accepted.
_____ The property is no longer for sale.
_____ (For back-up offers) The prior offer has been accepted.
_____ 5. The property has been withdrawn from sale.
_____ 6. A previous offer has been canceled. The property has been relisted for sale.
_____ 7. The property has been relisted for sale at the following:
Price $ _____
Terms: _____
_____ 8. Other: _____

Please feel free to contact this office if you have any questions regarding this letter. Thank you for your interest in purchasing REO property.

Sincerely,
[insert name of Loan Approval Official]
[insert title of Loan Approval Official]

Handbook Letter 11 (3550)

REFERENCE: Field Office Handbook Chapter 3

SUBJECT: Request Information

Date: [insert today's date]

[insert applicant(s) first/mi/last name(s) (Mr., Mrs., Ms.)]
[insert applicant(s) street/post office address]
[insert city, state, and zip code]

Dear [insert applicant last name(s) (Mr., Mrs., Ms.)]:

The following information must be submitted to this office in order for Rural Development to continue processing your application:

This letter is to advise you that no action can be taken until **all the above items** have been received in this office. Your application will remain in an inactive status until the information is received. Your failure to provide **all the above items** by _____, _____ will result in the withdrawal of your application. If your incomplete application is withdrawn, you may appeal the withdrawal (see https://www.nad.usda.gov/content/file-appeal for instructions on filing an appeal) or you can reapply.

Please be advised that Rural Development has a homeownership education requirement for first-time homebuyers. If you are a first-time homebuyer, you will be required to provide documentation of completion of an acceptable homeownership education course. Documentation must be in the form of a certificate of completion or letter from the provider of the homeownership education. Our office can assist you in locating an acceptable provider. We strongly encourage that applicants take the training early in the process.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Sincerely,

[insert name of Rural Development Official]
[insert title of Rural Development Official]

Handbook Letter 12 (3550)

REFERENCE: Field Office Handbook Chapter 12

SUBJECT: Notification of Approval (504 Grant and/or Loan)

[insert applicant(s) first/mi/last name(s) (Mr., Mrs., Ms.)]
[insert applicant(s) street/post office address]
[insert city, state, and zip code]

Dear [insert applicant last name(s) (Mr., Mrs., Ms.)]:

Rural Development has approved your request for assistance as follows:

☐ Approval of Section 504 Repair Loan assistance in the amount of [$ insert loan amount] at a fixed 1.0% interest rate.
☐ Approval of Section 504 Repair Grant assistance in the amount of [$ insert grant amount].

If the amount(s) listed above are less than the amount requested, you may contribute the difference from other sources of funds, reduce the repair amount by negotiating with your contractor(s), or appeal the determination. The loan (grant) will be closed and secured only through the following instrument(s):

☐ Promissory Note Only ☐ Grant Agreement

REPAYMENT TERMS: The loan will be repaid in monthly installments of principal and interest over a **20 year period**, with the first installment due approximately **30 days** after the last loan advance or acceptance of the repair work, whichever is earlier.

ADDITIONAL ITEMS OR CONDITIONS REQUIRED BY CLOSING: All items checked below apply.

☐ Attached list of repairs is to be completed, an escrow in the amount of $_____ will be held until the work is satisfactorily completed. RHS will fully disburse the loan/grant proceeds upon completion of the rehabilitation, subject to a satisfactory of completion and homeowners written statement of satisfaction.

☐ Documents: Any document used to verify employment, income, and assets that is over 120 days old, as of the date of closing will need to be updated prior to settlement.

☐ Other:

Approval Official: _____ Date: _____

Note: Date of approval will be the same as date of obligation.

This loan (grant) is approved subject to the availability of funds and other conditions required by RHS. If you have any questions, contact the approval official whose name appears above at _____.

Handbook Letter 15 (3550)

REFERENCE: Field Office Handbook Chapter 1

SUBJECT: Standardized Adverse Decision Letter

Date: [insert today's date]

[insert applicant(s) first/mi/last name(s) (Mr., Mrs., Ms.)]
[insert applicant(s) street/post office address]
[insert city, state, and zip code]

Dear [insert applicant last name(s) (Mr., Mrs., Ms.)]:

Thank you for the opportunity to consider your request for Rural Development assistance. In reviewing your request, we considered all information submitted to the Agency and the regulations that govern the assistance for which you applied. After careful review, we regret to inform you that we were unable to take favorable action on your request. The specific reasons for our decision are as follows:

(The following items should be included in each adverse decision letter and can be presented in different formats depending upon the type of assistance requested and reasons for denial):

- Specific reasons for the decision;
- Regulatory basis (CFR citation) for the decision;
- If applicable, a statement of any evidence considered in making the decision such as credit reports, financial statements, etc.;
- If applicable, a statement of any issues presented by the customer such as those discussed during any meetings or phone conversations.

If one of the above reasons included an unacceptable credit history, please note that a tri-merge credit report on you was obtained from Equifax Mortgage Solutions, 4300 Westown Parkway, Suite 200, West Des Moines, IA 50266; telephone (800) 333-0037. You may obtain a free copy of your credit report from Equifax and dispute the accuracy or completeness of the report directly to Equifax. While the report was provided by Equifax, the decision to deny your request for assistance was made by this Agency and not Equifax.

If you believe our decision is incorrect, or the facts used in this case are in error, you may challenge our decision. Please see the attached document.

Sincerely,

[insert name of Rural Development Official]
[insert title of Rural Development Official]

Attachment [insert Attachment 1-B or 1-C, as appropriate from Chapter 1]

Handbook Letter 16 (3550)

REFERENCE: Field Office Handbook Chapter 4

SUBJECT: Eligibility of Self-Help Applicants

Date: [insert today's date]

[insert applicant(s) first/mi/last name(s) (Mr., Mrs., Ms.)]
[insert applicant(s) street/post office address]
[insert city, state, and zip code]

Dear [insert applicant last name(s) (Mr., Mrs., Ms.)]:

You have been determined eligible for Rural Development financing for construction of a modest single family home under the Self-Help program. Eligibility is based on income and financial information that is verified within 180 days of loan approval and closing. Loan approval and closing are subject to the continued eligibility of the applicant and the availability of loan funds. Changes in your financial status (income and expenses) must be reported to Rural Development, and may affect your eligibility and the amount of loan for which you qualify. Rural Development has determined that you qualify for a Self-Help loan up to the amount of $_____in_____County.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Sincerely,

[insert name of Rural Development Official]
[insert title of Rural Development Official]

Handbook Letter 17 (3550)

REFERENCE: Field Office Handbook Chapter 5

SUBJECT: Adverse Decision Involving an Appraisal

Date: [insert today's date]

[insert applicant(s) first/mi/last name(s) (Mr., Mrs., Ms.)]
[insert applicant(s) street/post office address]
[insert city, state, and zip code]

Dear [insert applicant(s) last name(s) (Mr., Mrs., Ms.)]:

After carefully analyzing the appraisal of the property located at_____, we are unable to take favorable action on your request for Rural Development services. The specific reasons for our decision are:

[insert the specific reasons associated with the appraisal for the adverse action]

If the aforementioned reason for denial was because the appraised value was for less than the sales contract, you may want to look into the following options:

1) Adjust the sales contract
2) Dispute the appraisal

If you have any questions concerning this decision or the facts used in making our decision and desire further explanation, you may call or write the Local Office at [insert office phone number] to request a meeting with this office within 15 days of the date on this letter. You should present any new information or evidence along with possible alternatives for our consideration. You may also bring a representative or legal counsel with you.

If you do not wish to have a meeting as provided above, you may contest the appraisal of the property value. In order to contest the appraisal you must first request a review of the appraisal by the Rural Development State Director. Your request for review by the State Director should be through our office. You will be advised of the results of the State Director's review. If after the State Director's review you still disagree with the appraisal you may request a hearing. When you receive the results of the State Director's review you will be advised on how to ask for a hearing. Your request for a review of the appraisal must be postmarked no later than_____,_____[insert date 15 days from date of letter].

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

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Sincerely,

[insert name of Loan Approval Official]
[insert title of Loan Approval Official]

Handbook Letter 18 (3550)

REFERENCE: Field Office Handbook Chapter 5

SUBJECT: Unfavorable Decision After State Director Review of an Appraisal

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Date: [insert today's date]

[insert applicant(s) first/mi/last name(s) (Mr., Mrs., Ms.)]
[insert applicant(s) street/post office address]
[insert city, state, and zip code]

Dear [insert applicant last name(s) (Mr., Mrs., Ms.)]:

At your request, we have reviewed the appraisal of the property you wish to purchase. We have determined that the value estimate of the property is both supportable and defensible (as required by Rural Development regulations and appraisal industry standards) and, therefore, acceptable.

> You have the right to appeal this decision. You must show why the appraisal is in error if the aforementioned reason for denial was because the appraised value was for less than the sales contract, you may want to look into the following options:
>
> 1) Adjust the sales contract
> 2) Dispute the appraisal

See Attachment 1-B for your appeal rights. [Include Attachment 1-B from Chapter 1]

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

The Fair Housing Act prohibits discrimination in real estate related transactions, or in the terms or conditions of such a transaction, because of race, color, religion, sex, disability, familial status, or national origin. The federal agency that is responsible for enforcing this law is the U. S. Department of Housing and Urban Development. If a person believes that they have been discriminated against in violation of this law, they should contact the U. S. Department of Housing and Urban Development, Washington, D.C. 20410 or call (800) 669-9777.

Sincerely,

[insert name of Loan Approval Official]
[insert title of Loan Approval Official]

Handbook Letter 19 (3550)

REFERENCE: Field Office Handbook Chapter 3

SUBJECT: Pre-qualification Review

Date: [insert today's date]

[insert applicant(s) first/mi/last name(s) (Mr., Mrs., Ms.)]
[insert applicant(s) street/post office address]
[insert city, state, and zip code]

Dear [insert applicant(s) last name(s) (Mr., Mrs., Ms.)]:

Rural Development has conducted a pre-qualification review using a profile credit report (obtained at no cost to you) as well as unverified information you provided either orally or in writing. During this informal and unbinding review, items that raised concerns or need clarification were noted.

To qualify for program assistance, applicants must meet basic eligibility requirements that include, but are not limited to, acceptable credit history and loan repayment ability. We would like the opportunity to discuss with you the information obtained through the pre-qualification review. We ask that you call our office at [insert office phone number] within 15 days of the date on this letter.

You are welcome to submit a Uniform Residential Loan Application regardless of the issues discussed during the phone conversation.

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant's income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this creditor is the Federal Trade Commission. If a person believes he or she was denied assistance in violation of this law, they should contact the Federal Trade Commission, Washington, D.C. 20580.

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Sincerely,

[insert name of Loan Approval Official]
[insert title of Loan Approval Official]

REFERENCE: Field Office Handbook Chapter 13

SUBJECT: Response to Request to Sale for Less Than the Debt

Date: [insert today's date]

[insert borrower(s) first/mi/last name(s) (Mr., Mrs., Ms.)]
[insert borrower(s) street/post office address]
[insert city, state, and zip code]

RE: [Type of Assistance
Requested] [insert account #__]
[Residential Real Estate Located at (Popular Street Address of Property)]

Dear [insert borrower last name(s) (Mr., Mrs., Ms.)]:

USDA Rural Development has reviewed your request for consent to allow you to sell the subject property for the sale price that you have proposed. USDA Rural Development consents to this sale and agrees to release its first mortgage lien upon receipt of net proceeds from the sale in an amount not less than
$_____. By approving this sale, the Agency is agreeing only to release its lien; however, you will remain obligated for repayment of any remaining debt. The remaining debt can be settled through the debt settlement process. For your convenience a Debt Settlement Application is enclosed for you to complete and return to the National Financial Accounting and Operations Center (NFAOC) as instructed in the application.

- or -

USDA Rural Development has reviewed your request for consent to allow you to sell the subject property for the sale price that you have proposed and does not consent to this sale for the following reasons: [insert specific reasons]. Please contact the local field office at the above location for additional information.

Sincerely,

[insert name of RD Official]
[insert title of RD Official]

Effective Dates and Interest Rates
for Above-Moderate Rural Housing (RH)
or Other Real Estate (ORE) Loans

Effective Date	Interest Rate (%)
March 11, 1978	8.75 + .50
June 3, 1978	9.00 + .50
July 4, 1978	9.50 + .50
May 23, 1979	10.00 + .50
October 15, 1979	10.50 + .50
November 14, 1979	11.50 + .50
February 27, 1980	12.00 + .50
March 6, 1980	13.00 + .50
April 19, 1980	14.00 + .50
May 14, 1980	13.00 + .50
June 14, 1980	11.50 + .50
September 20, 1980	12.00 + .50
December 20, 1980	13.50 + .50
May 27, 1981	15.50 + .50
September 14, 1981	16.50 + .50
October 1, 1981	17.50 + .50
November 9, 1981	16.50 + .50
December 7, 1981	15.50 + .50
February 22, 1982	16.50 + .50
April 8, 1982	15.50 + .50
August 30, 1982	15.00 + .50
September 20, 1982	14.00 + .50
October 25, 1982	13.50 + .50
November 1, 1982	12.50 + .50
December 6, 1982	12.00 + .50
May 23, 1983	11.50 + .50
July 11, 1983	12.00 + .50
August 8, 1983	12.50 + .50
September 19, 1983	13.00 + .50
December 1, 1983	12.50 + .50

Effective Dates and Interest Rates for
Above-Moderate Single Family Housing (SFH) Nonprogram Loans

Effective Date	Interest Rate (%)
July 8, 1985	13.00
September 1, 1985	12.375
December 2, 1985	11.375
May 1, 1986	10.375
June 1, 1986	10.00
March 1, 1987	9.75
April 1, 1987	9.00
July 1, 1987	9.50
October 1, 1987	10.00
November 1, 1987	10.50
January 1, 1988	10.00
April 1, 1988	9.50
June 1, 1988	10.00
October 1, 1988	10.25
December 1, 1988	10.00
February 1, 1989	10.25
April 1, 1989	10.00
May 1, 1989	10.25
July 1, 1989	10.00
August 1, 1989	9.50
September 1, 1989	9.25
May 1, 1990	9.75
August 1, 1990	9.50
February 1, 1991	9.25
December 1, 1991	8.75
October 1, 1992	8.25
May 1, 1993	7.75
November 1, 1993	7.00
May 1, 1994	8.00
July 1, 1994	8.50
January 1, 1995	9.25
May 1, 1995	8.50
July 1, 1995	8.00
January 1, 1996	7.25
June 1, 1996	7.75
February 1, 1998	7.25
August 1, 1998	6.75
October 1, 1998	7.25
November 1,1998	6.875
December 1, 1998	6.625
January 1, 1999	6.875
February 1, 1999	6.750
March 1, 1999	6.875
May 1, 1999	7.250
July 1, 1999	7.375
August 1, 1999	7.625
October 1, 1999	7.750

Effective Dates and Interest Rates for
Above-Moderate Single Family Housing (SFH) Nonprogram Loans

Effective Date	Interest Rate (%)
December 1, 1999	7.875
October 1, 2000	7.375
January 1, 2002	6.625
May 1, 2002	7.250
November 1, 2002	6.500
July 1, 2003	6.250
August 1, 2003	5.875
September 1, 2003	6.250
October 1, 2003	6.875
February 1, 2004	6.625
May 1, 2004	5.875
July 1, 2004	6.875
October 1, 2004	6.750
November 1, 2004	6.500
April 1, 2005	6.125
June 1, 2005	6.375
July 1, 2005	6.125
August 1, 2005	5.875
January 1, 2006	6.250
February 1, 2006	6.250
June 1, 2006	6.500
July 1, 2006	6.750
November 1, 2006	6.500
January 1, 2007	6.250
March 1, 2007	6.375
May 1, 2007	6.250
August 1, 2007	6.625
October 1, 2007	6.500
January 1, 2008	6.125
March 1, 2008	5.875
August 1, 2008	6.250
November 1, 2008	5.875
February 1, 2009	4.875
March 1, 2009	4.500
April 1, 2009	5.125
July 1, 2009	5.375
August 1, 2009	5.675
September 1, 2009	5.500
October 1, 2009	5.375
July 1, 2010	5.125
August 1, 2010	5.000
September 1, 2010	4.750

Effective Dates and Interest Rates for
Above-Moderate Single Family Housing (SFH) Nonprogram Loans

November 1, 2010	4.500
January 1, 2011	4.750
February 1, 2011	5.000
April 1, 2011	5.125
July 1, 2011	4.750
October 1, 2011	4.375
November 1, 2011	4.000
December 1, 2011	3.750
July 1, 2012	3.625
August 1, 2013	4.000
September 1, 2013	4.250
February 1, 2014	4.500
April 1, 2014	4.250
July 1, 2014	4.125
December 1, 2014	3.875
February 1, 2015	3.750
March 1, 2015	3.500
May 1, 2015	3.625
July 1, 2015	3.750
April 1, 2016	3.500
September 1, 2016	3.375
January 1, 2017	3.750
April 1, 2018	4.250
November 1, 2018	4.000
December 1, 2018	4.250
March 1, 2019	4.000
August 1, 2019	3.625
November 1, 2019	3.500
April 1, 2020	3.250

DETERMINATION OF AMOUNT OF UNAUTHORIZED ASSISTANCE

A. When the recipient was at fault, choose the interest rate (from page 5 or 6 of this appendix) that was in effect when the loan was approved and compute interest on the entire loan at that interest rate from the date the loan was closed to the date the letter to the borrower of unauthorized assistance is sent. Add the interest to the beginning principal balance, and subtract that from any payments the borrower has made on the loan. The result is the amount of unauthorized assistance.

B. When the recipient received interest credits to which he or she was not entitled, the amount of unauthorized assistance is considered to be the monthly amount of unauthorized interest credit times the number of months the incorrect agreement has been (or was) in effect, without the addition of interest. This formula will be used both in cases where the recipient was at fault and where the recipient was not at fault.

C. When the recipient was not at fault and:

1. The entire loan was unauthorized, the amount of unauthorized assistance is the outstanding balance (principal and interest) due as of the date of the repayment. The interest rate will be the rate set in the note.

2. The entire loan was made at the wrong interest rate, the amount of unauthorized assistance will be computed as follows:

Outstanding principal balance x (correct rate - note rate) x length of time the loan was outstanding. For example, suppose a borrower received a $35,000 loan on February 1, 1982, at 11 percent. The loan should have been made at 13 percent. The borrower has made several payments and reduced the outstanding principal balance to $33,500. The borrower will repay the loan on February 1, 1984. To figure the amount of unauthorized assistance; multiply $33,500 x 2 percent x 2 years. The 2 percent is the difference between the current rate and the note rate. If the borrower was properly granted interest credits, the unauthorized assistance for the time the interest credit agreement was in effect will be zero. For example, suppose a borrower's note should have been written at 13 percent but was improperly written at 11 percent. The borrower was granted interest credits and has been repaying at a rate of 1 percent. It makes no difference what the note and the current rates were; the borrower was entitled to repay the loan at 1 percent, in accordance with the interest credit agreement.

INTEREST RATES TO BE CHARGED ON LUMP-SUM REPAYMENTS
WHEN UNAUTHORIZED ASSISTANCE WAS RECEIVED BECAUSE
RECIPIENT WAS AT FAULT

For Fiscal Year (FY)	Interest Rate to Be Charged (%)
1979	8.974
1980	10.734
1981	13.094
1982	14.208
1983	10.880
1984	12.255
1985	11.236
1986	9.015
1987	8.227
1988	8.461
1989	8.990
1990	8.590
1991	7.936
1992	7.042
1993	6.200
1994	5.350
1995	7.797
1996	6.770
1997	7.110
1998	5.980

INTEREST RATES TO BE CHARGED ON LUMP-SUM REPAYMENTS
WHEN UNAUTHORIZED ASSISTANCE WAS RECEIVED BECAUSE
RECIPIENT WAS AT FAULT (Con.)

For Fiscal Year (FY)	Interest Rate to Be Charged (%)
1999	5.81
2000	6.36
2001	5.75
2002	5.62
2003	5.03
2004	5.24
2005	4.72
2006	4.99
2007	4.91
2008	4.58
2009	4.01
2010	4.28
2011	4.23
2012	2.970
2013	3.040
2014	3.460
2015	2.750
2016	2.490
2017	2.820
2018	2.970
2019	2.820
2020	*

* The interest rate for FY 2020 will not be available until early FY 2021. If cases of unauthorized assistance received in FY 2020 are being serviced prior to the provision of a rate for FY 2020, use the interest rate for FY 2019 to compute the amount due.

APPENDIX 5

RURAL HOUSING DEMONSTRATION PROGRAM

I. PURPOSE

Section 506 (b) of title V of the Housing Act of 1949 authorizes the Secretary of Agriculture to permit demonstrations involving innovative housing units and systems that do not meet existing published standards, rules, regulations, or policies. Under this law, Rural Housing Service is authorized to provide the Rural Housing Demonstration program which tests new approaches to construction of housing under the statutory authority granted to the Secretary of Agriculture.

Section 506 (b) imposes two conditions: (1) that the health and safety of the population of the areas in which the demonstrations are carried out will not be adversely affected, and (2) that the aggregate expenditures for such demonstrations may not exceed $10 million in any fiscal year.

II. OBJECTIVES

The intended effect is to increase the availability of affordable rural housing low-income families through innovative designs and systems. The Agency solicits proposals for a Rural Housing Demonstration Program under section 506(b) of title V of the Housing Act of 1949, which provides loans to low income borrowers to purchase innovative housing units and systems that do not meet existing regulations. However, any program requirements that are statutory will remain in effect.

III. STATE OFFICE ROLES AND RESPONSIBILITIES

A. Have demonstration application packages available for interested parties.

1. Maintain list of persons given a demonstration package.

2. Designate housing state member as coordinator.

3. Develop a plan to coordinate review by program and technical staff.

B. Field office staff should be instructed to refer questions or interested parties to designated person in the State Office.

C. Review proposals for completeness within 15 days of receipt.

1. Completed proposals must be reviewed and evaluated based on the evaluation criteria. Submit proposals determined to be acceptable to the National Office with recommendations within 20 days.

2. Incomplete packages must be returned to the submitter within 15 days of receipt with an explanation of what is missing.

D. Upon request, be able to provide the National Office with a list of package requesters as well as status of submissions.

E. The State Office will track such approved proposals including any conditional commitments and Section 502 loans approved.

IV. PROPOSAL CONTENT AND EVALUATION CRITERIA

The innovative housing units and systems must be creative, affordable, durable, energy efficient, and include a diversity of housing types. The proposal must be beyond the "idea" state. The proposed organization or individual must have the experience and "know-how" to implement construction of the housing unit concept in relation to the requirements of RHS's housing programs. The proposed cost and price analysis should be in comparison with other proposals and be considered realistic for the efforts planned. Examples of eligible proposals include, but are not limited to: new or improved energy savings houses, roofing that cools and building techniques that cut costs and improve the quality of rural housing. These innovative housing units should reduce costs, raise living standards, and improve rural area living environments.

RHS, in its analysis of the proposals received, will consider whether the proposals will carry out the objectives of this demonstration effort in accordance with the following proposed content and evaluation criteria:

A. Technical Management. A proposal providing for the design, development, and application of a complete housing unit, including effective use of land, to be considered responsive shall address each of the items listed below. These items have been selected and arranged to provide a basis for the rapid and impartial evaluation of the proposal. Proposal development and design of innovative housing units and systems shall address those items under a housing unit concept which are applicable to the particular situation. For example, appropriate

statements are to be made with respect to the housing unit description adaptability, state of development, resolution of potential code problems, cost projections, and reassurance of health and safety.

The proposer is requested to keep the proposal as concise as possible and consistent with providing the requested information. Elaborate brochures and presentation methods are not desired.

B. Housing Unit Concept. A description of the housing unit concept shall include the items listed below (the term "housing unit concept" is considered to include the construction method and process, the effective innovative use of land for single or multiple units, and the interrelations with utilities and other services):

1. Housing Unit Description. Provide written and graphic details of the total housing unit including floor plan and conceptual arrangement drawings and outline specifications. Highlight innovative and unique features. Indicate the relationship between subsystems. Elements to be addressed include rationale for selection of the housing unit concepts including factors of economy, productivity, performance, anticipated benefits, market acceptance, and consumer preference as they relate to the following:

   a. Architectural: Floor plan at 1/4" per 10'; arrangements of housing units; finishes and aesthetic treatment; comparison with the requirements of national model codes; ability to incorporate varying appearance elements to provide architectural diversity.

   b. Structural: Structural system (including engineering calculations) and total weather envelope (RHS present "Thermal Performance Construction Standards" used as a minimum) and acoustical treatment and exterior finishes.

   c. Foundations: Foundation requirements peculiar to the proposed housing unit if separate from the structural system noted above.

   d. Interior Work: Partitions, floor, wall and ceiling, finishes, cabinetry, trim, built-in furniture, and stair treatment, if any.

e. Mechanical: Heating, ventilating and, if applicable, air conditioning; unit air changes; plumbing and fuel supply system piping or conduits; waste disposal.

f. Electrical: Power supply and distribution system; lighting system.

g. Appliance and Equipment: Describe items which are included, and any special features, interface requirements.

h. Ancillary Structure and Facilities: Describe any features provided separate from the basic housing unit that are normally part of a total housing complex, such as central laundry facilities and communal areas.

i. Land Use Concepts: Outline plans for innovative use of land to permit effective rural communities and small town planning, and effective utility systems.

2. Housing Unit Adaptability. Address the methods planned for adapting the proposed housing units to a variety of housing types and site considerations. Describe in narrative form and by concept drawings, modifications, or variations required to adapt the housing units to these varying situations.

a. Housing Types: Describe the type of housing for which the unit may be used, and indicate adjustments that may be required. Provide sketches.

b. Climatic Area: Designate the climatic area where the housing unit should be placed, and describe design changes required to adapt the unit to each area for which the unit is suitable. Particular reference to the changes to be made to the unit for adaptability to resist severe weather conditions such as hurricane and extreme snow accumulation.

c. Geology and Soils: Provide conceptual foundation design for those geologic soil conditions considered as appropriate for the proposed system. Conversely, list the geologic and soil conditions which would preclude the use of the proposed units.

d. Site Topography: Provide drawings or sketches which indicate adjustments or modifications required to adapt the units to various topographies.

e. Site Size: Discuss the ability of the proposed units and its mix of housing types to adapt to various site sizes.

f. Site Situations: Designate the types of sites for which the unit is considered appropriate and describe conceptually the unit treatment for each type. Describe the effects on unit design and production due to labor and material availability or similar factors related to site situation.

g. "Self-Help" Completion: Describe any work that can be done by the prospective occupant and the degree to which this might be practical. Note any skill or special training required.

h. Changes: Discuss the flexibility of the unit with regard to modifications in the unit after construction, including expansion and rearrangements.

i. Regional Applications: Discuss the States, regions, or areas of the country where the proposer is willing or interested in construction of this housing unit.

3. State of Housing Unit Development. Describe the present state of development of the housing unit and the subsystem components. Highlight any previous or current experience utilizing the proposed housing unit with particular emphasis on cost, acceptability, construction experience, and health and safety.

4. Constraints. Discuss and list restrictive provisions in the model and local codes that the proposer has resolved and that will not cause conflict with or inhibit the demonstration of the innovative housing unit concept in the selected areas of the country.

5. Housing Unit Cost Projections. Furnish cost projections for each of the following situations ("housing unit in place cost" is defined as including all construction, utility, and land cost):

   a. Housing Unit Construction: Construction of the housing unit on sites proposed in the climatic regions noted above.

   b. Ownership and Operating Cost Projections: Annual cost of ownership and operation of a housing unit, including estimates for utility expenses, insurance, and similar items. State assumptions.

   c. Maintenance Projections: Annual rate of expense averaged over a 5-year cycle for property maintenance including painting, repairs, and prorated replacement of equipment.

   d. Useful Life Projections: The probable useful life of the housing unit using separate projections for the structural systems, interior work, and mechanical and electrical system, if appropriate. State any conditions pertinent to the estimate. If housing units are constructed based on settled proposals, the proposer will be required to certify the actual construction cost.

C. Organization and Staffing. Describe the plan for organizing the total effort required to implement housing unit design and construction. This plan must include the following elements:

1. Management. An outline of the proposed management framework, including lines of responsibility and illustrating the varied disciplines required. Discuss the organizational and contractual requirements among the parties and their separate and mutual responsibilities, including plans for subcontracting portions of the work where applicable.

2. Key Individuals. A list of key individuals who will be assigned major management and professional responsibilities. Indicate the responsibilities to be assigned and indicate the persons' qualifications for the proposed assignment.

3. Data Collection. Describe the types, how, and by whom housing unit evaluation data will be collected and analyzed.

4. Time Schedule. Prepare a time schedule for development that sets start dates, completion dates, and relationships between different activities.

D. Evaluation Criteria. The Rural Housing Service, in its analysis of the proposals received, will give primary consideration to those proposals which demonstrate the greatest potential for carrying out the objectives of this demonstration effort in accordance with the following general criteria.

1. Housing Unit Concept.

a. A proposal must be well beyond the "idea" stage. Sufficient testing must have been completed to demonstrate its feasibility. The proposal must be judged ready for full scale field testing in a rural setting.

b. Ability of the housing unit to provide for the protection of life, property, and for the safety and welfare of the consumer, general public, and occupants through the design, construction, qualify of materials, use and maintenance of the housing unit.

c. Flexibility of the housing unit in relation to varying types of housing and varying site considerations.

d. Flexibility of the housing concept, insofar as it provides the ability to adjust or modify unit size and arrangements, either during design or after construction.

e. Efficiency in the use of materials and labor, with respect to cost in place, the conservation of materials, and the effective use of labor skills. Potential for Self-Help Housing Program will also be considered.

f. Selection of materials for durability and ease of maintenance.

g. Concepts for the effective use of land and environment.

2. Organizational Capabilities.

a. The experience and "know-how" of the proposed organization or individual to implement construction of the housing unit concept in relation to the requirements of RHS' housing programs. The interests of low- and very low-income rural residents in the proposed housing will be considered.

b. The management structure and organization of the proposer.

c. The quality and diversity of management and professional talent proposed as "key individuals."

d. The management plan of how this effort will be conducted.

3. Cost and Price Analysis.

a. The level of costs which are proposed, as they may compare with other proposals and be considered realistic for the efforts planned. Also, the quantity and level of detail in the information supplied.

Projected cost of "housing in place," with particular reference to housing for very low and low-income families.

V. SUBMITTING AND REVIEWING PROPOSALS

All interested parties must make a written request for a proposal package. The request must be made to the State Director in the State in which the proposal will be submitted. RHS will not be liable for any expenses incurred by respondents in the development and submission of applications.

Completed applications that have been determined to carry out the objectives of the program will be considered on a first come, first served basis based on the date a completed application was submitted. An application is considered complete only if the "Application for Approval of Housing Innovation" (included at the end of this Appendix) is complete in content, contains information related to the criteria, and all applicable additional information required by the application form has been provided. Applicants submitting an incomplete application will be advised in writing of additional information needed for continued processing. Rural Development will review each application for completeness and accuracy.

All application packages received by the State Director are evaluated and all acceptable application packages are submitted to the National Office for concurrence. The package is reviewed by the Program Support Staff and determined whether acceptable or unacceptable under the Demonstration Program. Each acceptable package must include a proposed allocation for the dwellings to be built.

VI. NATIONAL OFFICE APPROVAL OF PROPOSALS

After the National Office concurrence by the RHS Administrator, the State Director is notified and the Community Development Manager is made aware of the approval and prepares to issue conditional commitments for proposed dwellings. If the proposal is not selected, the State Director will so notify the applicant in writing, giving specific reasons why the proposal was not selected. Any decisions made by the Agency for the Section 502 Rural Housing Demonstration program cannot be appealed. Each borrower's file should be marked as a demonstration dwelling.

VII. FUNDING OF APPROVED PROPOSALS

State Directors are authorized to use funds for the section 502 Direct Rural Housing Demonstration Program on a project-by-project basis. Funds are subject to the requirements of RD Instruction 1940-L and are based on the availability of funds prior to the National Office year-end pooling date. Funds cannot be reserved or guaranteed under

the demonstration-housing concept. There is no guarantee that a market exists for demonstration dwellings, and this does not ensure that an eligible loan applicant will be available for such a section 502 Rural Housing dwelling.

VIII. PROJECT REQUIREMENTS

All RHS eligible loan applicants must meet the applicable requirements of 7 CFR part 3550.

A. When the proposer has an applicant, the next step will be the development of drawings and specifications that detail the requirements for construction of a demonstration dwelling unit on a specific site. The floor plans and elevations must be satisfactory to the applicant.

B. The State Engineer must review and determine acceptability of the individual unit and site designs for specific locations prior to construction. Adequate inspections per RD Instruction 1924-A should be made to protect the security interest of the Agency.

C. The proposer will be responsible for the drawings and specifications that detail the requirements for construction of demonstration dwelling units on specific sites.

D. All plans and specifications must meet the certification requirements of RD Instruction 1924-A.

E. The necessary permits should be obtained for local authorities prior to any site, building, plumbing, mechanical or electrical work being started.

When applying the demonstration concepts, requirements of RD Instruction 1970 series "Environmental" must be met.

F. Executive Order 12898 requires the Agency to conduct a Civil Rights Impact Analysis on each project prior to loan approval. Also, the requirements of Executive Order 11246 are applicable regarding equal employment opportunity when the proposed contract exceeds $10,000.

If there is no available RHS eligible loan applicant, the Rural Housing Demonstration Program applicant will have to advance funds to complete the construction of the demonstration housing with the risk that there may be no RHS applicant or other purchaser from which the builder will recover his or her development and construction costs.

Paperwork Reduction Act

The information collection requirements contained in this appendix have been approved by the Office of Management and Budget (OMB) and have been assigned OMB control number 0575-0114. Public reporting burden for this collection of information is estimated to be 80 hours per response including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

The following contain the "Application for Approval of Housing Innovation" which should be completed by the applicant and the "State Office Technical Evaluation Sheet" is an analysis of the Housing Demonstration concept in relation to the specific criteria contained in the Proposed Content and Evaluation Criteria.

FORM APPROVED
OMB No. 0575-0114

APPLICATION FOR APPROVAL OF HOUSING INNOVATION
(To be Completed by Applicant)

Name of Company:_____

Address: _____

_____

Executive Officer:_____

Contact Person:_____ Phone Number:_____

1. Describe the proposed housing unit innovation.

_____

_____

_____

2. How does the innovation differ from comparable, conventional housing units?

_____

_____

_____

3. How does the innovation deviate from present RHS housing standards for this type of housing unit?

_____

_____

_____

According to the Paperwork Reduction Act of 1995, an agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0114. The time required to complete this information collection is estimated to average 80 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.

4. Describe the intended buyer occupants of the housing unit (income levels, age groups, family composition).

_____

_____

_____

5. Does the innovation comply with local building codes? Yes _____ No _____ If no, has variance from those codes been approved by local housing authorities?

Yes _____ No _____

Attach documentation of compliance or approval of variance.

6. What impact, if any, will the innovation have on the health or safety of the:

a. housing unit occupants

b. local population

7. What impact, if any, will the innovation have on the physical environment?

8. What are your qualifications for implementing the proposed innovation?

a. Training

b. Experience

9. Will the innovation increase, or decrease, the initial cost of construction?

Increase _____ Decrease _____ Neither increase nor decrease _____

If increase or decrease, by what amount? _____

Explain

Attach documentation

10. Will the innovation increase, or decrease, the cost of maintenance, repairs, or replacements?

Increase _____ Decrease _____ Neither increase nor decrease _____

If increase or decrease, explain, including time frames in your estimations of additional costs or savings.

Attach documentation.

11. Will the innovation make it more feasible for the housing owners to do part of the initial construction or finishing work?

Yes _____ No _____

If yes, describe.

12. Will the innovation make it more feasible for the housing owners to do their own repairs, replacements, or maintenance?

Yes _____ No _____

If yes, describe.

FOR INNOVATIONS INVOLVING BASIC ARCHITECTURE OR CONSTRUCTION

13. What impact will the innovation have on the life expectancy of the housing unit?

_____ shorten life expectancy _____ extend life expectancy

_____ no impact on life expectancy

If shorten or extend life expectancy, explain.

FOR INNOVATIONS INVOLVING A COMPONENT OF THE HOUSING UNIT

14. Compared to comparable, conventional components, will the innovation have a longer, shorter, or the same life expectancy?

shorter _____ longer _____ the same _____

Explain.

15. What impact, if any, will the innovation component have on other parts of the housing unit?

---

16. Has this innovation been successfully used before?

a. in similar types of housing units. Yes _____ No _____

b. in different types of housing units. Yes _____ No _____
If yes, what types of units?

c. in similar climates. Yes _____ No _____

d. in different types of climates. Yes _____ No _____
If yes, what types of units?

_____

e. in similar geological areas. Yes _____ No _____

f. in different types of geological areas. Yes _____ No _____
If yes, what types of units?

If you answered yes to any part of question 16, attach documentation.

17. Will the innovation make future remodeling or expansion of the unit more feasible?

Yes _____ No _____

If yes, explain

18. Address the issues in the technical management section of the proposal contract section and evaluation criteria to the extent these issues were not fully discussed in the responses to the preceding questions.

Rural Housing Service is an Equal Opportunity Lender. Complaints of discrimination should be sent to: Secretary of Agriculture, Washington, DC 20250.

Rural Housing Service
State Office Technical Evaluation Sheet
Rural Housing Demonstration Program

Instruction:

Evaluation of Rural Housing Demonstration Program technical proposal concepts will be based upon analysis of the proposer's concept in relation to the specific criteria contained in the Proposal Content and Evaluation Criteria. Reviewers should record their evaluation of each proposal in terms of its strengths and weaknesses, i.e., the degree to which the proposal concept possesses or lacks the attributes set forth in the Proposal Content and Evaluation Criteria paragraphs of this Appendix.

Reviewer's comments should be provided in the space below to indicate the basis for the State Office recommendations and any other pertinent observations.

Prior to evaluating the proposer's concepts, it should be screened to determine if it is fully responsive in accordance with the requirements of the Proposal Content and Evaluation Criteria paragraphs of this Appendix. Proposals found to be non-responsive will be removed from further consideration. The State Office will return the submission to the proposer with a list of the non-responsive areas identified.

State: _____ Reviewer: _____ Date: _____

Name of Proposer: _____

Address: _____

_____

Executive Officer: _____

Contact Person: _____ Phone Number: _____

Proposal Description: _____

_____

_____

The proposal is (check one):

___ Responsive - complete the technical evaluation sheet
___ Nonresponsive - return to proposer with explanation

I. Proposal Evaluation (Specific strengths and weaknesses. Use additional sheets if more space is needed.)

A. Housing Unit Concept

1. State of Development - is the housing unit ready for full scale field testing in a rural setting:

Strengths	Weaknesses

2. Ability of Housing Concept to provide for the protection of life, property, and for the safety and welfare of occupants:

Strengths	Weaknesses

3. Flexibility of Housing Concepts:

a. Site Consideration

Strengths	Weaknesses

b. Dwelling Unit Concept

Strengths	Weaknesses

4. Efficiency in the use of material and labor.

Strengths	Weaknesses

5. Materials durability and ease of maintenance.

Strengths	Weaknesses

6. Concepts effect on land use and the environment.

Strengths	Weaknesses

B. Organization Capabilities

1. Experience of organizations or proposer to implement construction of the Housing Unit Concept: Is there evidence of a potential applicant?

Strengths	Weaknesses

2. Evaluation of effectiveness of Management structure and organization of proposer.

Strengths	Weaknesses

3. Qualifications of key individuals.

Strengths	Weaknesses

4. The management plan of how construction will be conducted.

Strengths	Weaknesses

5. Is the proposed time schedule realistic?

Strengths	Weaknesses

C. Cost and Price Analysis:

1. The quality, quantity, and level of detail supporting the cost of constructing the property concept.

Strengths	Weaknesses

2. How does this compare with present housing costs in your State?

Strengths	Weaknesses

3. Projected housing cost for low- and very low-income individuals.

Strengths	Weaknesses

II. State Office Summary Review Comments and Recommendations.

A. Recommendations/Comments (Proposal's overall strengths and weaknesses)

1. Housing Unit Concept:

2. Organizational Capabilities:

3. Cost and Price Analysis:

4. Other:

B. Recommendation/Rating based on the proposal and objective of the demonstration.

(Check one): _____ Excellent _____ Very Good _____ Good

_____ Fair _____ Poor

Effective Dates and Interest Rates
for Above-Moderate Rural Housing (RH)
or Other Real Estate (ORE) Loans

Effective Date	Interest Rate (%)
March 11, 1978	8.75 + .50
June 3, 1978	9.00 + .50
July 4, 1978	9.50 + .50
May 23, 1979	10.00 + .50
October 15, 1979	10.50 + .50
November 14, 1979	11.50 + .50
February 27, 1980	12.00 + .50
March 6, 1980	13.00 + .50
April 19, 1980	14.00 + .50
May 14, 1980	13.00 + .50
June 14, 1980	11.50 + .50
September 20, 1980	12.00 + .50
December 20, 1980	13.50 + .50
May 27, 1981	15.50 + .50
September 14, 1981	16.50 + .50
October 1, 1981	17.50 + .50
November 9, 1981	16.50 + .50
December 7, 1981	15.50 + .50
February 22, 1982	16.50 + .50
April 8, 1982	15.50 + .50
August 30, 1982	15.00 + .50
September 20, 1982	14.00 + .50
October 25, 1982	13.50 + .50
November 1, 1982	12.50 + .50
December 6, 1982	12.00 + .50
May 23, 1983	11.50 + .50
July 11, 1983	12.00 + .50
August 8, 1983	12.50 + .50
September 19, 1983	13.00 + .50
December 1, 1983	12.50 + .50

(01-23-03) SPECIAL PN
Revised (01-27-17) PN 494

Effective Dates and Interest Rates for
Above-Moderate Single Family Housing (SFH) Nonprogram Loans

Effective Date	Interest Rate (%)
July 8, 1985	13.00
September 1, 1985	12.375
December 2, 1985	11.375
May 1, 1986	10.375
June 1, 1986	10.00
March 1, 1987	9.75
April 1, 1987	9.00
July 1, 1987	9.50
October 1, 1987	10.00
November 1, 1987	10.50
January 1, 1988	10.00
April 1, 1988	9.50
June 1, 1988	10.00
October 1, 1988	10.25
December 1, 1988	10.00
February 1, 1989	10.25
April 1, 1989	10.00
May 1, 1989	10.25
July 1, 1989	10.00
August 1, 1989	9.50
September 1, 1989	9.25
May 1, 1990	9.75
August 1, 1990	9.50
February 1, 1991	9.25
December 1, 1991	8.75
October 1, 1992	8.25
May 1, 1993	7.75
November 1, 1993	7.00
May 1, 1994	8.00
July 1, 1994	8.50
January 1, 1995	9.25
May 1, 1995	8.50
July 1, 1995	8.00
January 1, 1996	7.25
June 1, 1996	7.75
February 1, 1998	7.25
August 1, 1998	6.75
October 1, 1998	7.25
November 1,1998	6.875
December 1, 1998	6.625
January 1, 1999	6.875
February 1, 1999	6.750
March 1, 1999	6.875
May 1, 1999	7.250
July 1, 1999	7.375
August 1, 1999	7.625
October 1, 1999	7.750

Effective Dates and Interest Rates for
Above-Moderate Single Family Housing (SFH) Nonprogram Loans

Effective Date	Interest Rate (%)
December 1, 1999	7.875
October 1, 2000	7.375
January 1, 2002	6.625
May 1, 2002	7.250
November 1, 2002	6.500
July 1, 2003	6.250
August 1, 2003	5.875
September 1, 2003	6.250
October 1, 2003	6.875
February 1, 2004	6.625
May 1, 2004	5.875
July 1, 2004	6.875
October 1, 2004	6.750
November 1, 2004	6.500
April 1, 2005	6.125
June 1, 2005	6.375
July 1, 2005	6.125
August 1, 2005	5.875
January 1, 2006	6.250
February 1, 2006	6.250
June 1, 2006	6.500
July 1, 2006	6.750
November 1, 2006	6.500
January 1, 2007	6.250
March 1, 2007	6.375
May 1, 2007	6.250
August 1, 2007	6.625
October 1, 2007	6.500
January 1, 2008	6.125
March 1, 2008	5.875
August 1, 2008	6.250
November 1, 2008	5.875
February 1, 2009	4.875
March 1, 2009	4.500
April 1, 2009	5.125
July 1, 2009	5.375
August 1, 2009	5.675
September 1, 2009	5.500
October 1, 2009	5.375
July 1, 2010	5.125
August 1, 2010	5.000
September 1, 2010	4.750

APPENDIX 7

STATE SUPPLEMENTS

In accordance with RD Instruction 2006-B, all state supplements must be submitted to the National Office for either prior approval or post approval. Appendix 7 may serve as a placeholder for state supplements if a paper master manual is retained.

APPENDIX 8
VERIFICATIONS

VERIFICATION OF PENSIONS AND ANNUITIES

REQUEST FOR INFORMATION
Federal regulations require us to verify financial information provided by applicants for housing assistance. We ask your cooperation in supplying the information requested. The attached Form RD 3550-1, Authorization to Release Information, provides the applicant's authorization.

Your prompt return of the requested information will be appreciated. A self-addressed return envelope is enclosed for your convenience. If you have questions, please call _____ at _____.

APPLICANT IDENTIFICATION
Name _____ SSN (*last 4 digits*): XXX-XX-_____ DOB: _____

REQUESTED INFORMATION
A. INCOME FROM ANNUITIES

1. $ _____ Current monthly gross amount received. Will the applicant continue to receive this monthly amount for the next twelve months? ___ Yes ___ No *(If "No", please explain.)*

2. Describe any deductions from the gross amount that are taken.

B. VERIFICATION OF ASSETS

1. $_____ Current market value of assets held in the retirement or pension plan.
2. Can the applicant withdraw amounts from the retirement account without retiring or terminating employment? _____ Yes _____ No. If yes, explain the terms of the withdrawal, including any penalties.

3. Can the applicant borrow against amounts in the retirement account? ___ Yes ____ No
If yes, explain the terms (maximum amount, interest rate, repayment term, purposes, etc.).

VERIFIER INFORMATION: Please sign this verification form and print the name, address and telephone number of the verifier.
Name:_____ Title:_____

_____ Telephone Number:_____
(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

(01-23-03) SPECIAL PN
Renumbered (03-15-19) PN 522

VERIFICATION OF STUDENT INCOME AND EXPENSES

REQUEST FOR INFORMATION

Federal regulations require us to verify financial information provided by applicants for housing assistance. We ask your cooperation in supplying the information requested. The attached Form RD 3550-1, Authorization to Release Information, provides the applicant's authorization.

Your prompt return of the requested information will be appreciated. A self-addressed return envelope is enclosed for your convenience. If you have questions, please call _____ at _____.

APPLICANT IDENTIFICATION

Name _____ SSN (*last 4 digits*): XXX-XX-_____ DOB: _____

REQUESTED INFORMATION

1. Describe any financial assistance the above-referenced student receives.

Source	Amount	Purpose for Which Funds May Be Used
Scholarship(s)		
Grant(s)		
Loan(s)		
Work-Study		
Other		

2. Describe any expenses the above-referenced student has for:

$_____ Tuition
$_____ Housing
$_____ Books
$_____ Supplies and Equipment
$_____ Transportation
$_____ Misc. Personal Expenses
$_____ Total

VERIFIER INFORMATION: Please sign this verification form and print the name, address and telephone number of the verifier.

Name:_____ Title:_____

_____ Telephone Number:_____

(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

VERIFICATION OF MEDICAL EXPENSES

REQUEST FOR INFORMATION

Federal regulations require us to verify financial information provided by applicants for housing assistance. We ask your cooperation in supplying the information requested. The attached Form RD 3550-1, Authorization to Release Information, provides the applicant's authorization.

Your prompt return of the requested information will be appreciated. A self-addressed return envelope is enclosed for your convenience. If you have questions, please call _____ at _____.

APPLICANT IDENTIFICATION

Name _____ SSN (*last 4 digits*): XXX-XX-_____ DOB:_____

REQUESTED INFORMATION

1. Please list the purpose of any accumulated medical bills, identify to whom the amount is owed, and provide the amount to be paid during the coming 12 months.

Amount	**Owed To**	**Medical Expenses for *(general purpose)***

2. Medical Insurance Premiums

   $_____ Amount Paid Payment Period: __ per month, ___ per year

   Medical Insurance Premiums

   $_____ Amount Paid Payment period: __ per month, ___ per year

3. List other anticipated medical expenses:

VERIFIER INFORMATION: Please sign this verification form and print the name, address and telephone number of the verifier.

Name:_____ Title:_____

_____ Telephone Number:_____

(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

VERIFICATION OF SOCIAL SECURITY BENEFITS

REQUEST FOR INFORMATION

Federal regulations require us to verify financial information provided by applicants for housing assistance. We ask your cooperation in supplying the information requested. The attached Form RD 3550-1, Authorization to Release Information, provides the applicant's authorization.

Your prompt return of the requested information will be appreciated. A self-addressed return envelope is enclosed for your convenience. If you have questions, please call _____ at _____.

APPLICANT IDENTIFICATION

Name _____ SSN (*last 4 digits*): XXX-XX-_____ DOB: _____

REQUESTED INFORMATION

Gross monthly Social Security benefit amount: $_____
Type of benefit: _____

Gross monthly Supplemental Security Income payment amount (including State Supplement): $_____
Type of benefit: _____

Amount of monthly deductions for Medicare paid by the applicant: $_____

VERIFIER INFORMATION: Please sign this verification form and print the name, address and telephone number of the verifier.

Name:_____ Title:_____
_____ Telephone Number:_____
(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

VERIFICATION OF PUBLIC ASSISTANCE

REQUEST FOR INFORMATION

Federal regulations require us to verify financial information provided by applicants for housing assistance. We ask your cooperation in supplying the information requested. The attached Form RD 3550-1, Authorization to Release Information, provides the applicant's authorization.

Your prompt return of the requested information will be appreciated. A self-addressed return envelope is enclosed for your convenience. If you have questions, please call _____ at _____.

APPLICANT IDENTIFICATION

Name _____ SSN (*last 4 digits*): XXX-XX-_____ DOB: _____

REQUESTED INFORMATION

	Rate Per Month
Number in family: _____	
Aid to families with dependent children	$_____
General assistance	$_____
Does this amount include Court Awarded Support Payments	☐ Yes ☐ No
Amount specifically designated for shelter and utilities	$_____
Other assistance / type: _____	$_____
Total monthly grant	$_____
Other income / source: _____	$_____
*Maximum allowance for rent and utilities	$_____
Amount of public assistance given during the past 12 months	$_____

VERIFIER INFORMATION: Please sign this verification form and print the name, address and telephone number of the verifier.

Name:_____ Title:_____

_____ Telephone Number:_____
(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

VERIFICATION OF CHILD/DEPENDENTCARE

REQUEST FOR INFORMATION

Federal regulations require us to verify financial information provided by applicants for housing assistance. We ask your cooperation in supplying the information requested. The attached Form RD 3550-1, Authorization to Release Information, provides the applicant's authorization.

Your prompt return of the requested information will be appreciated. A self-addressed return envelope is enclosed for your convenience. If you have questions, please call _____ at _____.

APPLICANT INFORMATION	**CAREGIVER INFORMATION**
Name: _____ Address: _____ _____	Name: _____ Company (if applicable): _____ Address: _____ _____

SERVICES PROVIDED

The name and age of the applicant's dependent(s) under your care:

1. 4.
2. 5.
3. 6.

Frequency and Cost of Care:

In a typical week:
How many hours of care do you provide the applicant's dependent(s)? _____
What days do you provide care? Sun Mon Tue Wed Thurs Fri Sat
Approximately how many weeks in a year do you provide care: ____/52 weeks

During extended school holidays/breaks:
How many hours of care do you provide the applicant's dependent(s) per week? _____
What days do you provide care? Sun Mon Tue Wed Thurs Fri Sat

For the services provided, the average amount charged is: $_____ per week month .

For services to be provided during the next 12 months, the total expected cost is: $_____ for the next 12 months.

If any of the amount charged is paid for or reimbursed by an outside source (public services, employer, etc.), the amount covered by an outside source is: $_____ per week month (check the appropriate billing period).

VERIFICATION OF CHILD/DEPENDENTCARE – CONTINUED

APPLICANT PAYMENT HISTORY

Indicate the number of years you have: Known applicant _____ Provided services to applicant _____	What is the highest amount the applicant has owed you? $	How much does the applicant presently owe you? $

How would you rate the applicant's promptness in making payments in the previous 24 months?
Advance On Time Late (*30+ days*)

Indicate the number of times payments were late in the previous 24 months:

30 Days	60 Days	90 Days

Use this space to include any comments you wish to make concerning your experience with the applicant's payment history.

_____

VERIFIER INFORMATION:

Name:_____ Date:_____
_____ Telephone Number:_____
(Signature)
Title: _____

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code).

VERIFICATION OF UNEMPLOYMENT BENEFITS

REQUEST FOR INFORMATION

Federal regulations require us to verify financial information provided by applicants for housing assistance. We ask your cooperation in supplying the information requested. The attached Form RD 3550-1, Authorization to Release Information, provides the applicant's authorization.

Your prompt return of the requested information will be appreciated. A self-addressed return envelope is enclosed for your convenience. If you have questions, please call _____ at _____.

APPLICANT IDENTIFICATION

Name _____ SSN (*last 4 digits*): XXX-XX-_____ DOB:_____

REQUESTED INFORMATION

1. Are benefits being paid now? ☐ Yes ☐ No
2. If yes, what is gross weekly payment? $_____
3. Date of initial payment _____
4. Duration of benefits _____ weeks
   Is claimant eligible for future benefits? ☐ Yes ☐ No
5. If yes, how many weeks? _____
6. If no, what is termination date of benefits? _____

VERIFIER INFORMATION: Please sign this verification form and print the name, address and telephone number of the verifier.

Name:_____ Title:_____

_____ Telephone Number:_____

(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

VERIFICATION OF BUSINESS EXPENSES

REQUEST FOR INFORMATION

Federal regulations require us to verify financial information provided by applicants for housing assistance. We ask your cooperation in supplying the information requested. The attached Form RD 3550-1, Authorization to Release Information, provides the applicant's authorization.

Your prompt return of the requested information will be appreciated. A self-addressed return envelope is enclosed for your convenience. If you have questions, please call _____ at _____.

APPLICANT IDENTIFICATION

Name _____ SSN (*last 4 digits*): XXX-XX-_____ DOB: _____

REQUESTED INFORMATION

Based on business transacted from _____ 20____, to _____ 20____

1.	Gross Income	$_____
2.	Expenses:	
(a)	Interest on Loans	$_____
(b)	Cost of Goods/Materials	$_____
(c)	Rent	$_____
(d)	Utilities	$_____
(e)	Wages/Salaries	$_____
(f)	Employee Contributions	$_____
(g)	Federal Withholding Tax	$_____
(h)	State Withholding Tax	$_____
(i)	FICA	$_____
(j)	Sales Tax	$_____
(k)	Other	$_____
(l)	Straight Line Depreciation	$_____
	Total Expenses	**$_____**
3.	Net Income	$_____

VERIFIER INFORMATION: Please sign this verification form and print the name, address and telephone number of the verifier.

Name:_____ Title:_____

_____ Telephone Number:_____

(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

VERIFICATION OF SUPPORT PAYMENTS

REQUEST FOR INFORMATION

Federal regulations require us to verify financial information provided by applicants for housing assistance. We ask your cooperation in supplying the information requested. The attached Form RD 3550-1, Authorization to Release Information, provides the applicant's authorization.

Your prompt return of the requested information will be appreciated. A self-addressed return envelope is enclosed for your convenience. If you have questions, please call _____ at _____.

APPLICANT IDENTIFICATION

Name _____ SSN (*last 4 digits*): XXX-XX-_____ DOB: _____

REQUESTED INFORMATION

Name of Person Paying Support: _____

Address:_____ _____
Unit/Apt#:_____
City: _____
State, Zip:_____

For: ( ) Former Spouse

( ) Children

Children names are:

1.	4.	7.
2.	5.	8.
3.	6.	9.

Amount of Support: $_____ ☐ Week ☐ Month ☐ Year

VERIFIER INFORMATION: Please sign this verification form and print the name, address and telephone number of the verifier.

Name:_____ Title:_____
_____ Telephone Number:_____
(Signature)

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

RECORD OF ORAL VERIFICATION

APPLICANT INFORMATION
Re: _____
Address: _____
_____
Date Received: _____

INFORMATION VERIFIED
Item verified: _____
Person contacted: _____
Representing: _____

INFORMATION SUPPLIED

_____ _____ _____
Signature of Person Receiving Verification Date Time

WARNING: Knowingly and willingly making a false or fraudulent statement to any department of the United States Government is a felony punishable by fine and imprisonment (Title 18, Section 1001, U.S. Code)

APPENDIX 9

SINGLE FAMILY HOUSING DIRECT INCOME LIMITS

AVAILABLE ONLINE AT:

https://www.rd.usda.gov/files/RD-DirectLimitMap.pdf

APPENDIX 10

SINGLE FAMILY HOUSING FIELD GUIDANCE ON DISASTER DECLARATIONS

I. PURPOSE

The purpose of disaster funding in the Single Family Housing program is to provide assistance to families and individuals covered by a Presidential Disaster Declaration. Assistance is made available in counties named by the Federal Emergency Management Agency (FEMA) as being eligible for Individual Assistance.

The following provides general guidance to agency field staff for appropriate action following a disaster. The extent of disasters varies greatly. Additional guidance may be provided from program staff based upon need. The following provides guidance to state and local offices in serving the residents of a disaster area, monitoring activities of agency staff, and serving existing borrowers in the disaster area.

Field offices should check FEMA's website at www.fema.gov for disaster declarations in areas served. This appendix applies to designated areas eligible for Individual Assistance (assistance to individuals and households). Loan or grant assistance provided in regards to a disaster must follow all program requirements and guidelines to providing lowand very low income individuals and households the opportunity to own and maintain adequate, modest, decent, safe, and sanitary homes in rural areas.

Disaster victims should be directed to first contact FEMA, Small Business Administration (SBA), their homeowner insurance company, and other agencies or charitable organizations offering assistance.

SFH field staff must contact insurance companies in all circumstances where emergency housing assistance is requested by applicants for repairs that are potentially covered by insurance.

Also, SFH field staff must obtain certification statements from recipients in all circumstances where recipients receive disaster assistance under a presidential disaster declaration. This certification must indicate that they have not received other benefits for the same purpose as the RD assistance.

Unless otherwise specified in this Appendix, disaster assistance applications for Section 502 Direct and Section 504 Loans and/or Grants should be accepted, evaluated, and closed following the same procedures as described in Chapters 2 through 10 and 12 of this Handbook. This applies to existing customers returning for subsequent assistance or new customers. The focus by agency staff will be to serve those affected by the disaster as quickly and efficiently as possible. Awareness of policies and procedures such as separation of duties and proper use of funds remain of the utmost importance.

For the purpose of administering these funds, “natural disaster” will only include those areas identified by a Presidential Disaster Declaration for Individual Assistance. Again, loans and grants are only available to applicants to the extent that funds are not provided by FEMA, SBA, or other sources. Applicants must establish that physical damage to their home was caused by the natural disaster. Applicants must file application packages at the Rural Development field office serving the county where the dwelling is located.

II. NOTICE OF AVAILABILITY OF FUNDING

Disaster funding, when available, is money to assist individuals and families in an area where property has been damaged or destroyed by natural disaster but not covered by insurance. It is meant to help persons with critical expenses that cannot be covered in other ways. This assistance is intended to restore the damaged property to its condition before the disaster.

Rural Development may announce the availability of Disaster Relief Funding in the Federal Register, through a Notice of Funds Availability (NOFA). In that event, the NOFA will list the application deadlines, eligibility requirements and places the public may apply for program dollars.

III. 502 DIRECT LOAN DISASTER ASSISTANCE

Program Number 10.445- Direct Housing- Natural Disaster- Section 502 Very Low and Low Income Loans Authorization- Housing Act of 1949, Title V, Section 502, as amended, Public Law 89-117, 42 U.S.C 172, Public law 98-51;Public Law 98-51; Public Law 100-233; Amendment of Consolidated Farm and Rural Development Act of 1987; Section 601.

The purpose of these loans are to assist qualified low and very low income families to meet emergency assistance needs resulting from natural disaster to buy, build, rehabilitate or improve dwellings in rural areas. Direct loans may be used for construction, repair, or purchase of housing in rural areas affected by the natural disaster. Documentation is needed to show that the applicant's permanent home was in the affected area before the disaster.

IV. LOAN AND GRANT DISASTER ASSISTANCE

Program Number 10.444- Direct Housing Natural Disaster Loans and Grants. Authorization- Housing Act of 1949, Title V, Section 504, as amended. Public Law 89-117, 42 U.S. C. 14764; Public Law 104-134.

The purpose of these loans and grants are to assist very low income owner-occupants to repair or replace damaged property as a result of a natural disaster.

V. ADDITIONAL STATE/FIELD OFFICE ROLES AND RESPONSIBILITIES

Designate an individual to coordinate Rural Development response and recovery efforts.

- Obtain the State Preliminary Damage Assessment from FEMA.
- Plan and conduct outreach efforts to reach disaster victims.
- Consider utilizing assistance of field offices outside of the disaster area to support application processing activities.
- Coordinate assistance from local appraisers, insurance adjusters, and other agencies to verify losses when possible.
- FEMA, SBA, insurance or other covered losses - Disaster assistance has been provided or denied by other sources.
- 504 Grant funds for cosmetic improvements, such as installing ceiling fans, wall cabinets, or crown molding.
- Purchase or replacement of non-essential appliances (washing machines, dryers, microwaves, etc.).

To prevent grant funds from being used for ineligible purposes, there must be complete documentation in the applicant's case file to justify each repair and improvement that would remove health and safety hazards or would make the dwelling accessible and usable for household's members with disabilities.

VI. DOCUMENTATION OF IMPACT

The following documentation must be in the case file:

- Home is in a disaster area identified in the Presidential Disaster Declaration.
- Registration with FEMA for Individual Assistance where the home, owned or otherwise, is categorized by FEMA as being destroyed or having major damage.
- Non-owners must provide documentation regarding destruction of or damage to the residence. This may include an insurance report, an inspection report by an independent fee inspector or government agency, or conclusive photographic evidence showing the construction or damage.
- Applicant's insurance information claim is needed for insurance benefits and evidence to show that the damaged to the property is not fully covered.
- Proof of ownership, rental, or other arrangement for primary residence documentation in the designated disaster area.
- Documentation that the applicant has accepted assistance from all other sources or received notification for which they are eligible, either from FEMA or SBA or other charitable organization.
- Certification written on Form RD 410-4, Uniform Residential Loan Application, page 8, "I/we certify that I/we have not previously nor do I/we anticipate receiving any other payment or benefit of any kind for the same purpose for which I/we am applying for assistance from Rural Development.") This must also be signed by all parties of the application and/or owners of the home to be repaired.
- Staff must make responsible efforts to avoid providing duplicate benefits. If applicable, this includes verification from the mortgage lender of insurance coverage and verification by the insurer of coverage.
- Applicants and the home must meet the all eligibility requirements for the applicable single-family housing program.

Grant funds must only be for repairs and improvements that will remove health and safety hazards, or to repair or remodel dwellings to make them accessible and useable for household members with disabilities. The identified health and safety hazards should be separated from the loan improvements and other sources of assistance.

VII. PORTFOLIO MONITORING

Immediately following a disaster there is usually little application activity as most residents are in "recovery mode". Outreach efforts take effect over time, applications begin coming in, and supplemental funding may or may not become available. The focus is on providing assistance to those in great need. State Offices need to monitor activities of the affected field offices *during* this time.

Items to consider include the following:

- Are there outreach efforts in all affected areas of the designation?
- Are funds being used for persons and families affected or displaced by the presidential declared disaster?
- Are disaster funds utilized for eligible purposes?
- Do applicants meet all 502 or 504 eligibility requirements?
- Does the property meet all 502 eligibility requirements?
- Is FEMA's disaster declaration specified in the case files?
- Is there certification *and* follow up in the applicant's case file to indicate the applicant has not received assistance through homeowner's insurance, FEMA, SBA or other organizations for the same purpose?
- Are the disaster loans and grants coded properly?

Monitoring by the State Office does not end with the file review. Open communication with the staff of the affected field office(s) is important. Communication and coordination with other agencies before, during, and after is important to the success of recovery.

VIII. CUSTOMER SERVICE AND LOAN SERVICING

Rural Development makes every effort to help existing borrowers who are victims of disaster to recover from the financial hardship, to minimize the potential for delinquency liquidation, and to protect the Government's interest. The National Financial and Accounting Operations Center (NFAOC) will take the lead. However, field office staff may frequently be the first contact point.

Field Staff should refer existing customers seeking loan servicing assistance to NFAOC at:

USDA Rural Development
National Financial and Accounting Operations Center
Attn: Cash Management and Borrower Assistance Branch
Post Office Box 66818
St. Louis, Missouri 63166-6818
Phone: (800) 349-5097

NOTE: The following information is provided for awareness of field staff. NFAOC will continue to provide customers with servicing options and decisions.

Upon notice of a disaster declaration, collection calls and treasury offset will be suspended for all borrowers residing in the declaration area. In addition, the following servicing options will be available for borrowers affected by the natural disaster:

Insured Losses: If security property is to be repaired, the borrower's Rural Development loan account must be current before insurance proceeds can be released. An authorized field office employee may release insurance proceeds less than $10,000 to the borrower when presented with the insurance company's repair list. Insurance proceeds of $10,000 or more must be forwarded to NFAOC, Hazard Insurance Section, according to current claims handling procedures. A field office employee will inspect repairs when completed as required under 7 CFR 3550.110(d) (3) and RD Instruction 1924-A. If security property is not going to be repaired, insurance proceeds must be applied to pay off the loan. Recapture is calculated based on the market value at the time of the loss, according to 7 CFR 3550.162. If market value is less than the debt, NFAOC will apply the insurance proceeds to the amount of the debt, including recapture. Market value is determined by a recent file appraisal if documented that it represents an accurate indication of value at the time of the loss.

Uninsured Losses: A borrower who sustains an uninsured loss is covered by the moratorium authority below but is in default of the mortgage by failing to keep the property insured. If a borrower incurs an uninsured loss, the field office will notify NFAOC through Task 285 of the estimated amount of damage to the property and the date of loss. If a borrower is unable to pay off the debt or repair the house with personal resources or
other credit, the debt must be settled under 7 CFR 3550.253.

Moratorium: Under the exception authority of 7 CFR 3550.8, NFAOC is authorized to grant a moratorium for a period not to exceed 180 days for 502 and 504 borrowers located in the declared area. Borrowers who have lost employment, sustained severe property damage or medical expenses, should contact NFAOC for an extension for up to 18 additional months, not to exceed a total of 24 months. If an extension is not requested, the account will automatically be reamortized at the end of the 180 days. Escrow will not be required.

Reamortization: Since SBA is statutorily prohibited from making disaster loans to persons delinquent on a federal debt, NFAOC is authorized to reamortize a delinquent 502Direct account when a borrower shows evidence of application for a disaster loan from the SBA.

The primary servicing actions in the natural disaster area will continue to be the responsibility at NFAOC as described in this Handbook; however, assistance may be needed from the Field so that NFAOC can adequately service the loan.