

Appraisal and Property Requirements Training – Question and Answer October 2021

General Site and Property

- 1. For properties with multiple parcels, does the appraiser need to confirm whether or not these parcels can be subdivided? If yes, does this have to be addressed if the parcels are contiguous or only on parcels that are across a road from the subject property?**

The lender must ensure that the mortgage provides a valid first lien covering each parcel. Each parcel must be conveyed in its entirety and have the same zoning. Parcels must be contiguous unless divided by a road and the remaining parcel cannot be developed. The site must not have income-producing land. Vacant land or properties used primarily for agricultural, farming or commercial enterprise are ineligible.

- 2. What do we need to get when the address is not found in the property eligibility search but we know that it is eligible?**

You will want to locate your property using a mapping feature such as Google Maps and the maps provided within the appraisal report, if applicable. Using the zoom and push pin features on the USDA eligibility website, you should be able to find the approximate location of the property. You may submit the loan in GUS and provide copies of the maps and reference materials used to determine property location. The production team will review the location on the appraisal map and additional maps provided and can override the finding if the property is verified as eligible.

- 3. Is there a max acreage with USDA (not income producing)?**

Although there are no limitations to site size or acreage, the appraiser must provide an explanation to any adjustments needed to comparable properties and determine if the size is typical for the area.

- 4. Are there limits to the amount of house value verse land value? (e.g.) house value \$200K + 10 acres so total appraisal is \$400,000. This assumes we can get comps of similar size and land etc. This would be 50% house value to total value.**

The guidelines do not provide a maximum site value. The property would need to be typical for the area, supported by comparable properties identified by the appraiser.

- 5. Can a rental property be owned in addition to the primary home?**

An applicant who owns a dwelling to which they will retain ownership may be eligible for a guaranteed loan. It is not the intent of the SFHGLP to assist borrowers in building an

investment portfolio. The loan applicant is limited to owning one single family housing unit, whether adequate or inadequate, other than the house associated with the loan request.

Applicants may purchase another home through the SFHGLP if the following criteria is met:

- Current dwelling is not financed by a Rural Development guaranteed or direct 502 loan (including co signed obligations), or 504 loan or active grant;
- The applicant must be financially qualified to own more than one home;
- The applicant must occupy the home that will be financed with the guaranteed loan as their primary residence throughout the term of the loan, and;
- The current home owned no longer adequately meets the applicants' needs, such as:
 - Relocation due to a new job opportunity
 - Requires larger home to accommodate growing family
 - Obtaining a divorce and the ex-spouse will retain the dwelling
 - Is a non-occupying co-owner or co-borrower on another mortgage loan and wants to purchase their own dwelling

Any revenue received from the original dwelling must be reported under annual household income, and should only be counted as repayment income if it has been received for 24 months or more.

6. Is a property that has a deed restriction allowed as USDA. Example: In a community that requires a property to be available to be rented 7 weeks a year.

Income-producing buildings or land are not eligible under the single family housing guaranteed loan program. Additionally, the homeowner must occupy the home financed with the guaranteed loan as their primary residence throughout the term of the loan. Therefore, the property in this scenario would not be eligible for a loan note guarantee.

7. Can manufactured homes be discussed? What is allowed and what is not?

Manufactured homes may be financed with USDA's Single Family Housing Guaranteed Loan Program when the unit meets the program requirements:

- The site development work must conform to standards imposed by state and local governments;
- The unit must be new and never been installed or occupied at any other site or location other than the dealer's lot;
- The unit must have at least 400 square feet of floor area and be placed on a permanent foundation, built to FHA guidelines at the time of certification; and
- The unit must meet or exceed the FMHCSS standards for the geographic area where the unit will be placed.

To further expand the opportunity for affordable homeownership in certain states, Rural Development has implemented a pilot program where existing manufactured homes may be eligible in certain cases. States included in the Pilot Program are; CO, IA, LA, MI, MS, MT, NV, NH, NY, ND, OH, OR, PA, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY.

8. If we receive a conditional commitment on a property that is “unable to determine” eligibility in GUS, would we need to retain the other documentation to prove the eligibility in our permanent loan file?

To support the loan request for properties where addresses are not recognized within the eligibility site or GUS, you will need to accurately identify the exact location of the property by utilizing the tools and reference materials to support your request. You will provide all supporting documentation such as Google maps and location maps and photos from the appraisal with your loan request. All documentation used to support the request should be retained in the lender’s permanent loan file.

9. Properties located on gravel roads are acceptable, correct?

Streets and roads must be hard surfaced or all-weather surfaced. An all-weather surfaced road is described as a road surface which emergency and the area’s typical passenger vehicles can pass at all times.

10. The local authority requires permit for a construction in order to be legal. If a construction has no permit, but it has market acceptance, would illegal zoning be selected?

When unpermitted work is discovered in the existing dwelling, the lender must ensure that the owner and/or contractor contact the appropriate code enforcement office to obtain retroactive permitting or devise a plan to permit the previous construction. The lender must ensure that the borrower obtains a rehabilitation loan permit certification prior to the loan closing so that all permit fees associated with the new and/or previous construction are included in the total bid.

All newly constructed homes must meet local zoning requirements. The Appraiser must determine if current use complies with zoning ordinances. If the existing property does not comply with all of the current zoning ordinances but is accepted by the local zoning authority, the Appraiser must report the property as “Legal Non-Conforming” and provide a brief explanation. The Appraiser must analyze and report any adverse effect that the non-conforming use has on the property’s value and marketability.

11. What about a dead structure that consisted of construction without permits and does not comply with the local authority?

That would not be acceptable – it would have to be permitted & inspected. When unpermitted work is discovered in the exiting dwelling, the lender must ensure that the owner and/or contractor contact the appropriate code enforcement office to obtain retroactive permitting or devise a plan to permit the previous construction. The lender must ensure that the borrower obtains a rehabilitation loan permit certification prior to the loan closing so that all permit fees associated with the new and/or previous construction are included in the total bid.

12. Are above ground pools allowable?

Properties with above ground and in-ground swimming pools are eligible for the SFHGLP.

13. All condos must meet either VA, FHA, Fannie or Freddie to be eligible?

Yes, this is correct; as well as other required Agency guidelines.

14. Can condos that fall under the loan guarantee program consist of multiple units, such as a condo building with space for 4-owner units and single family units? Example, if someone wanted to build 4 condos with 4 units for ownership, would that still be considered “single family units”?

Condominiums must meet Agency requirements as well as HUD/FHA, VA, Fannie Mae or Freddie Mac standards. Condominium projects typically consist of multi-unit buildings governed by an HOA. Each unit is individually owned, and the common areas such as hallways and recreational areas are owned by all the unit owners.

Although less common, it is possible for condominium projects to consist of detached or attached single family dwellings. In these cases, it is the HOA and not the individual owner who is responsible for maintaining the exterior of the dwellings in addition to common areas.

Project approval may not be required for site condominiums if they meet the following criteria:

- Single Family totally detached dwelling encumbered by a declaration of condominium covenant or condominium form of ownership;
- The unit has no shared garage or any other attached buildings (i.e. archways, breezeways); and
- The condominium unit consists of the entire structure, site and air space and is not considered to be common areas or limited common areas.

Certain types of condominium projects are not eligible under HUD/FHA, Fannie Me, Freddie Mac or VA guidelines. Chapter 12 of our HB-1-3555, Section 5 Condominiums provides additional guidance on this topic.

15. How do we determine eligibility for TBD properties?

For properties that result in an “Unable to Determine” result on the USDA Income & Property Eligibility site and/or GUS, you will want to utilize reference materials such as Google Maps and the maps provided in the appraisal to determine the property address location. Once the location is determined, use the zoom tool and “push pin” feature on the USDA Income & Property Eligibility website to zoom in on the property location. This should allow you to make a property eligibility determination. You will want to provide copies of all mapping references and documentation with your application package. If you are still having issues using this method, please reach out to our Policy, Analysis and Communications Branch at sfhgld.program@usda.gov

16. On a home that has a detached garage, if the detached garage has items such as leaking roof or rotted rafter, do these items need to be repaired even if the appraiser states that these items are not safety or health hazards?

An existing dwelling must be inspected to determine the dwelling meets the current minimum property requirements of the Single Family Housing Policy Handbook (SF Handbook, HUD Handbook 4000.1, also known as the HUD Handbook). Qualified appraisers are licensed and certified and can attest the property meets HUD Handbook standards. It remains the lenders responsibility to determine if the appraiser is thoroughly familiar with the HUD Handbook. In all instances, the appraiser must report all readily observable property deficiencies, as well as any adverse conditions discovered while performing the research involved in completing the appraisal. Required repairs under the noted handbooks are limited to those repairs necessary to preserve the continued marketability of the property and to protect the health and safety of the occupants. A property which a qualified appraiser indicates is in average or good condition may be considered in good repair, though repairs may still be required by the lender. Conditions that would warrant additional repairs include those that pose a threat to the safety of the occupants, jeopardize the soundness and structural integrity of the property, or adversely affect the likelihood of a low-or moderate borrower from becoming a successful homeowner.

- 17. If a property has a frontage of 60 feet after a recent expansion, without permits, where the zoning requires 75 feet, should the appraisal describe the expansion as illegal zoning in the Site section?**

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.

When unpermitted work is discovered in the existing dwelling, the lender must ensure that the owner and/or contractor contact the appropriate code enforcement office to obtain retroactive permitting or devise a plan to permit the previous construction. The lender must ensure that the borrower obtains a rehabilitation loan permit certification prior to the loan closing so that all permit fees associated with the new and/or previous construction are included in the total bid.

- 18. Can a borrower finance new appliances beyond the purchase price of the home into the total loan amount if the appraised value supports the amount?**

Purchase of essential household equipment such as major appliances that typically transfer with the property are an eligible use of loan funds. The maximum loan amount may not exceed 100% of the appraised value, plus the guaranteed loan fee.

ADUs and Income Producing Property

- 19. Can you expand on the presence of the ADU not automatically rendering a property ineligible? In which specific circumstances would a house with an accessory unit be eligible? Also, isn't USDA limited to 10 acres properties?**

The presence of an accessory dwelling unit (ADU) does not automatically render the property ineligible. The appraiser will determine if the ADU represents a second single family housing dwelling unit. The Agency defers to the appraiser's professional review of the property and expert opinion of the highest and best use of the subject property as a primary residence. The appraiser will include their evaluation in the site analysis section of the appraisal report. Additionally, income-producing buildings and land are not eligible for the SFHGLP. If the ADU is noted as currently income-producing, then the property would be ineligible as Rural Development cannot be used to finance income-producing property, regardless of the applicant's future intent.

There is no specific limitation to the size/acreage of the site. The appraiser must provide an explanation in the addendum to the appraisal to explain adjustments to comparable properties, how the subject compares to other properties in the area, etc.

20. How do you know the ADU won't be used for rental income or the ADU won't be rented?

Although the presence of an accessory dwelling unit (ADU) does not automatically render the property ineligible, the Rural Development SFHGLP cannot be used to finance properties that are noted as income-producing property. Therefore, if the property is currently noted as being rented or income-producing, it would not be eligible for the program, regardless of the applicant's future intent. The appraiser will determine if the ADU represents a second single family housing dwelling unit. The Agency defers to the appraiser's professional review of the property and expert opinion of the highest and best use of the subject property as a primary residence. The appraiser will include their evaluation in the site analysis section of the appraisal report if applicable.

The Agency relies on our approved lenders to administer the single family housing guaranteed loan program as agreed upon through the lender approval process. To be approved for the program, the lender must agree to follow the Agency's program guidelines and consistently demonstrate high-quality in the areas of loan origination, underwriting, servicing, and reporting.

21. If the ADU is rented now, but the buyer won't rent out the ADU, does it still fall into an Income Producing Property?

The Agency will rely on the appraiser's professional review and expert opinion. Keeping in mind, that if there are any buildings and/or land noted on the appraisal, from the seller, or listing to be currently income producing, it would render the property ineligible, even if the applicant certifies that those buildings or land would not be used for income producing purposes once the purchase is complete.

22. If an ADU appears to want to be rented, can the borrower having a large family, such as a Mother in law that will move in, will that offset the thought of the possible ADU rental? For example, can it overcome the appraiser's opinion that the ADU is a rental unit?

The Agency will rely on the appraiser's professional review and expert opinion. It is the appraiser that will determine, based on his inspection and review of the property, the best use and classification. Keeping in mind, that if there are any buildings and/or land noted on

the appraisal, from the seller, or listing to be currently income producing, it would render the property ineligible, even if the applicant certifies that those buildings or land would not be used for income producing purposes once the purchase is complete.

23. Is it an accurate statement that access to the ADU will be crucial on determining rentability?

The Agency will rely on the appraiser's professional review and expert opinion. It is the appraiser that will determine, based on his inspection and review of the property, the best use and classification.

24. On a 2 unit property, would a house with an apartment on the property, listed as a single family, be acceptable as long as the apartment isn't income?

Although the presence of an accessory dwelling unit (ADU) does not automatically render the property ineligible, the Rural Development SFHGLP cannot be used to finance properties that are noted as income-producing property. Therefore, if the property is currently noted as being rented, it would not be eligible for the program, regardless of the applicant's future intent. The appraiser will determine if the ADU represents a second single family housing dwelling unit. The Agency defers to the appraiser's professional review of the property and expert opinion of the highest and best use of the subject property as a primary residence. The appraiser will include their evaluation in the site analysis section of the appraisal report, if applicable.

25. Wasn't there previously a prohibition of more than one dwelling on a parcel; i.e. 2 on 1?

The presence of an accessory dwelling unit (ADU), or more than one structure on a parcel does not automatically render the property ineligible. The appraiser will determine if the ADU represents a second single family housing dwelling unit. The Agency defers to the appraiser's professional review of the property and expert opinion of the highest and best use of the subject property as a primary residence. The appraiser will include their evaluation in the site analysis section of the appraisal report.

Additionally, income-producing buildings and land are not eligible for the SFHGLP. If the ADU is noted as currently income-producing, then the property would be ineligible as Rural Development cannot be used to finance income-producing property, regardless of the applicant's future intent.

26. Property with a mobile home behind the home being purchased by the applicant which has a family member living in it. Mobile home isn't giving any value toward the purchase price and isn't a rental unit. Is this acceptable?

Although the presence of an accessory dwelling unit (ADU) does not automatically render the property ineligible, the Rural Development SFHGLP cannot be used to finance properties that are noted as income-producing property. Therefore, if the property is currently noted as being rented or income-producing, it would not be eligible for the program, regardless of the applicant's future intent. The appraiser will determine if the ADU represents a second single family housing dwelling unit. The Agency defers to the appraiser's professional review of the property and expert opinion of the highest and best use of the subject

property as a primary residence. The appraiser will include their evaluation in the site analysis section of the appraisal report, if applicable.

- 27. Explain the difference between a “hobby” barn and an income producing barn. Are Hobby Farms (non-income producing) allowed? I have had several customers that have expressed interest in purchasing acreages that may have a machine shed and/or barn that have been used for personal storage by the sellers and would be used for only personal storage, not income-producing purposes, by the buyers. Would this type of property be eligible for RD?**

The site must not have income-producing buildings or land. Barns, silos, commercial greenhouses, or livestock facilities used primarily for the production of agricultural, farming or commercial enterprise are ineligible. However, barns, silos, livestock facilities or greenhouses no longer in use for 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 primarily used for an 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. However, please keep in mind that any buildings and/or land noted on the appraisal, from the seller, or the listing to be currently income producing would render the property ineligible, even if the applicant certifies that those buildings or land would not be used for income producing purposes once the purchase is complete.

- 28. If a borrower is buying a home and will raise farm animals for their own use, is that property eligible for a loan note guarantee?**

It’s possible. Keeping in mind that income-producing buildings and/or land that would be used primarily for the production of agricultural, farming, or commercial enterprise are ineligible.

- 29. Will the guarantee program be updated to allow “income producing property” approval?**

At this time we are unaware of any plans to allow income producing properties to be financed with the SFHGLP.

- 30. Would it be counted as income producing only if they are reporting it to the IRS? If the sellers have chickens and sell eggs for cash, would this still count as income producing?**

Income-producing buildings and land are not eligible for the SFHGLP. Properties that include buildings and/or land that are principally used for income producing purposes are prohibited. Barns, silos, commercial greenhouses, or livestock facilities as well as vacant land or properties used primarily for the production of agricultural, farming or commercial enterprises are ineligible. However, a minimal income-producing activity such as maintaining a small 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. The appraiser should note if the property is currently income producing. Properties with

buildings and/or land that are currently income-producing would not be eligible for the guaranteed program, regardless of the applicant's future intent.

Water/Sewer/Electric

31. Is a property with solar panels as only source of electricity eligible or do they need to have access to public electricity as well?

The property, as a whole, must meet the minimum property standards of HUD Handbook 4000.1. Rural Development relies on the appraiser or inspector deemed qualified by the lender to make that certification and/or determine if any repairs will be required to meet HUD Handbook standards.

32. Off the grid property only on SOLAR – the HUD Handbook states it should, but not MUST, have another energy source. If all other requirements meet HUD Handbook standards, would this be an eligible property?

As long as the property meets the HUD Handbook requirements including water, electrical, etc., the property would be eligible. The appraiser and/or inspector would need to make the determination if any repairs would be needed to make the property meet those standards.

33. Will USDA accept knob/tube electrical?

We defer to the MPR noted in the HUD 4000.1 Handbook, which states Knob and tube wiring is acceptable if found to be in good condition and a minimum of 60-amps.

34. If the water needs to be treated, can the treatment take place after closing?

Issues with water quality would constitute a health and safety concern for the borrowers. Although the lender can hold funds for the repairs to be completed post-closing, the Loan Note Guarantee could not be requested until the repairs affecting the livability of the home are complete.

35. What does she mean by improved by local code for shared water systems?

The water quality of the shared well must meet the requirements of the state or local authority.

36. So the FHA water series is required?

Rural Development does not identify specific elements that must be tested for. The water quality of the well must meet the requirements of the state or local authority. If the local and/or state Health Authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply.

37. For water tests, if the home has a water filtration system to meet EPA guidelines, but it comes out of designated faucets (such as the kitchen and bathroom sink), and not every faucet, is this still acceptable?

Water systems for both existing and new construction, that require continuous or repetitive treatment to be safe bacterially or chemically may be used if the individual water system, with purification, meets the requirements of the state department of health or other comparable reviewing and regulatory authority.

- 38. When discussing private water/well sources, would that include a well that does not have potable water without the use of a water purification system? HUD has strict guidelines that must be met for a well with a purification system. I'm wondering if we would follow HUD's guidance on wells with water purification systems or if USDA will accept it as long as we have it tested and verify it meets state and local standards.**

Water systems for both existing and new construction, that require continuous or repetitive treatment to be safe bacterially or chemically may be used if the individual water system, with purification, meets the requirements of the state department of health or other comparable reviewing and regulatory authority.

- 39. When did the nitrates and nitrates water test requirements become required for all RD loans with well and septic?**

Rural Development does not identify specific elements that must be tested for. The water quality of the well must meet the requirements of the state or local authority. If the state or local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply.

- 40. Most state and county health authorities will state they have no requirements for water testing. When we refer to the EPA.gov per guidelines, it states:**

<https://www.epa.gov/privatewells> "EPA does not regulate private wells nor does it provide recommended criteria or standards for individual wells". And "Private well owners are responsible for the safety of their water". In this case, where should we look for EPA requirements that would meet USDA requirements?

Rural Development does not identify specific elements that must be tested for. The water quality of the well must meet the requirements of the state or local authority, or those established by the Environmental Protection Agency (EPA) will apply. You may want to reach out to your state or local health department with additional questions.

- 41. Is a UV water purification system on a private well acceptable for USDA?**

Water systems, for both existing and new construction, that require continuous or repetitive treatment to be safe bacterially or chemically, may be used if the individual water system, with purification, meets the requirements of the state department of health or other comparable reviewing and regulatory authority.

- 42. Is there a minimum site size for a property with a septic system?**

Rural Development does not have an established minimum site size requirement. A lender is required to obtain a septic evaluation which may be completed by a qualified appraiser who can certify that the property meets required HUD Single Family Housing Policy, a government health authority, a licensed septic system professional or a qualified home

inspector. Evidence that the system, including site location, must meet the HUD Handbook 4000.1 or local and/or state standards.

- 43. If a property has a private well and individual septic, do we always need the distances measured or only if the appraiser does not address the septic is adequate? Does the appraiser have to state the distance between the well and septic or can he just indicate that it meets HUD required distance?**

The well location for individual water supply systems must be measured to establish the distance from the septic system. The separation distance between the well and septic systems must meet the HUD Handbook 4000.1, OR be found acceptable by the local and/or State Health Authority. The appraiser's certification is acceptable for this requirement.

Appraisal

- 44. Is the 1004MC addendum required?**

The 1004MC addendum is not required.

- 45. For the 1004MC, wouldn't it still be required for manufactured homes?**

The appraiser will determine the appropriate appraisal form for the subject property. Appraisers must utilize appraisal forms acceptable to Fannie Mae, Freddie Mac, HUD, or VA. For manufactured homes, the Manufactured Home Appraisal Report and Addendum (FNMA Form 1004C/FHLMC Form 70B) should be used. Form 1004-MC, Market Conditions Addendum, is no longer required by Rural Development.

- 46. Wouldn't the land value indicate it highest and best use as residential vs income producing?**

Not necessarily. The site must not have income-producing land that will be used primarily for income producing purposes. Vacant land or properties used primarily for agricultural, farming or commercial enterprise are ineligible. It will be the appraiser's responsibility to report the best use of the property and determine if any land and/or buildings are currently being used for income-producing purposes. However, it remains the lender's responsibility to review the appraisal to verify if the property meets the Agency's requirements prior to submission.

- 47. Are photos of the interior of the garage required?**

No. Interior photos of the garage are not required, unless recent improvements or renovations have been completed and the work represents overall condition which impacts the appraised value.

- 48. Can you repeat/confirm that pictures of the bedrooms are required?**

Yes. An appraisal report with interior and exterior inspection of the subject property must include at least the following:

- Front View

- Rear View
- Street Scene identifying the location of the subject property and showing neighborhood improvements
- The Kitchen, Main Living Area, Bathrooms, Bedrooms
- Any other rooms representing overall condition, recent updates, such as restoration, remodeling and renovation
- Basement, Attic and Crawl Space
- Comparable Sales, Listings, and/or Pending Sales utilized in the valuation analysis must include at least a front view of each comparable utilized
- Condominium projects should include additional photographs of the common areas and shared amenities

49. Would you confirm that appraisals are good for 150 days? Is this for both new and construction and existing dwellings? Does the the 90 day extension apply to both of these as well?

The appraisal must have been completed within 150 days of loan closing. Appraisals older than 150 days prior to loan closing are eligible for a one time appraisal extension for an additional 90 days.

50. On a new construction, are the FHA forms 92544 and 92541 acceptable? And if we have these 2 forms and a COO, are all the new construction requirements met?

FHA forms 92544 and 92541 are not required. As noted in Chapter 12, Section 6 of the HB-1-3555, at the completion of construction, the lender should obtain the appraiser's final inspection, a certificate of occupancy, a final endorsement to the title policy clear of all liens and retain evidence in the lender's permanent case file. The approved lender monitoring the construction of the subject dwelling should retain a certification stating the dwelling has been completed and ready for occupancy, construction phase inspections have been conducted and the required warranty coverage has been obtained.

51. If an appraiser states the highest and best use is SFR but the zoning is agriculture – is that property eligible?

As long as all program requirements are met, the agricultural zoning, itself, would not render the property ineligible.

52. Are there any repairs not allowed to have a repair escrow held at closing with repairs completed after closing?

Repair escrows, post issuance of the Loan Note Guarantee, are acceptable provided the home is habitable and the repairs do not affect the livability of the dwelling, nor the health or safety of the occupants, as determined by the lender. For those repairs that do affect the livability of the home or health and safety of the occupants, the lender can hold funds for the repairs, however the Loan Note Guarantee could not be requested until the repairs affecting the livability of the home are complete. All repairs financed with loan funds must constitute an eligible loan purpose.

53. Are we permitted to collect for unimproved property taxes for a home recently built? Or is there a new construction property tax calculator available?

Property taxes vary across states and municipalities. The escrowed amount for real estate taxes is based on the assessed value of improved land (i.e. value of both the property and the completed dwelling) for new construction. The lender may contact the taxing authority which has jurisdiction over the property to obtain an estimate of the taxes to be assessed for newly constructed homes. Ultimately, it is the responsibility of the approved lender to accurately calculate the anticipated property taxes in the escrow analysis.

54. Is escrowed funding for new construction items to be completed post-closing that will require a Post-Closing Compliance Inspection allowed to include contingency amounts above and beyond the amounts listed within estimates so long as it remains within the 10% of the loan amount?

Repair escrows, post issuance of the Loan Note Guarantee, are acceptable provided the home is habitable, as determined by the lender. All items of new construction or repairs must be 100 percent complete in accordance with plans and specifications except for minor items not affecting the livability of the structure or that cannot be completed due to weather conditions. The funds to be escrowed are not less than 100 percent of the repair cost contract. The loan underwriter may determine the escrow amount, which could exceed the repair cost. Any funds remaining in the escrow account upon completion of the work, that are representative of loan funds or a seller concession as part of the sales contract, will be used to reduce the unpaid principal balance of the mortgage. Personal funds of the applicant utilized to fund the repair escrow (excluding loan funds or a seller concession) may be returned to the applicant. A seller's personal funds utilized to fund the repair escrow (excluding a seller concession as part of the sales contract) may be returned to the seller.

55. Do USDA loans go by 4000.1 for appliances?

We refer to HUD Handbook 4000.1 for appliance requirements. The HUD 4000.1 Handbook states only that appliances that are to remain and that contribute to market value opinion must be operational and that the appraiser must note all appliances that will remain and contribute to the market value. However, appliances are not required to be conveyed with the property.

56. Is a COO acceptable in lieu of inspections for new construction?

COO is acceptable if the minimum of 3 inspection were included in the process and a 1 year warranty is provided. Additional information can be located in HB 1-3555, Chapter 12, Section 12.9B.

57. Can trainees sign the reports along with supervisors?

Yes, as long as the supervisor signs and they are a licensed, qualified appraiser.

58. The 4000.1 states appliances that are not in the dwelling are not required as long as they are not given any value. It has been my experience with USDA that USDA requires there to

be a stove and any appliances that are built in, which is different than the 4000.1 requirements. Can you please state what is required?

We refer to HUD Handbook 4000.1 for appliance requirements. The HUD 4000.1 Handbook states only that appliances that are to remain and that contribute to market value opinion must be operational and that the appraiser must note all appliances that will remain and contribute to the market value. However, appliances are not required to be conveyed with the property.

59. What if the home is a new build?

Rural Development guidelines do not specifically address the installation of appliances. New dwellings must be designed and constructed in accordance with certified plans and specifications. The lender's file must contain evidence the plans and specifications comply with all development standards applicable to new construction as set forth by the current International Code Council (ICC) standards or current state adopted ICC code(s) for residential construction.

60. How do I get a copy of the appraisal handbook?

See our Chapter 12 of Handbook 1-3555 here:

<https://www.rd.usda.gov/sites/default/files/3555-1chapter12.pdf>

HUD's property condition Handbook is here:

https://www.hud.gov/program_offices/housing/sfh/handbook_4000-1

61. How long are appraisals good for?

Appraisals must be completed within 150 days of loan closing. Appraisals that are older than 150 days prior to loan closing are eligible for an appraisal update of not greater than 90 days.

62. Can closing occur after 150 days from appraisal date if still within the 90 validity period of 3555-18?

The appraisal must have been completed within 150 days of loan closing. Appraisals that are older than 150 days prior to loan closing are eligible for an appraisal update. The validity period of an appraisal report can be extended only one time with an Appraisal Update Report. The appraisal may be expired at the time the appraisal update is requested.

However, when the original appraisal is subsequently updated, the appraisal is valid for no greater than 240 days from the effective date of the original appraisal report at loan closing.

63. How are you handling the current escalation of values and comps?

Approved lenders must select qualified and competent appraisers that are properly licensed or certified, as appropriate, in the State in which the property is located. The market or sales comparison approach is required in all cases. Not less than three comparable sales will be used unless the appraiser provides documentation that such comparable sales are not available. The appraiser must use their knowledge of the area and apply good judgment in the selection of comparable sales that are the best indicators of value for the subject

property. The appraiser will determine if the cost approach is required. For example, if the property is unique, or has specialized improvements, or is new manufactured housing, or if the client requests the cost approach to be completed, then the appraiser will identify the source of cost estimates and will comment on the methodology used to estimate depreciation, effective age and remaining economic life. The agency relies on the qualified and expert opinion of the appraiser.

64. What are the provisions for buying a property neighboring the manufacturing industry?

Approved lenders must ensure appraisals are completed by a qualified appraiser that is independent and objective and must select qualified and competent appraisers that are properly licensed or certified, as appropriate, in the state in which the property is located. The appraiser must comply with the current edition of the Uniform Standards of Professional Appraisal Practice (USPAP). Lenders may verify that an appraiser is licensed or certified by checking the [Appraisal Subcommittee](#) website. All appraisals must comply with the reporting requirements if the USPAP available at www.appraisalfoundation.org and must meet the Uniform Appraisal Dataset (UAD) requirements set forth by Fannie Mae and Freddie Mac.

Lenders are required to utilize due diligence with regard to potential environmental hazards to ensure the property is safe, sanitary, and has sufficient value to adequately secure the loan. While the Agency does not specify how the lender's due diligence must be conducted, the level of review must be equivalent to the standards established by Fannie Mae, Freddie Mac, the Federal Housing Authority (FHA), or the United States Veterans Administration (VA).

65. Are basements included in the building sketch?

The Agency defers to the HUD Handbook 4000.1 for appraisal requirements. Additionally, all appraisals must comply with the reporting requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) which are available at www.appraisalfoundation.org. All appraisal reports must meet the Uniform Appraisal Dataset (UAD) requirements set forth by Fannie Mae and Freddie Mac. For new construction, the lender's file must contain evidence the plans and specifications comply with all development standards applicable to the new construction, including current International Code Council (ICC) standards or current state adopted ICC code(s) for residential construction.

66. Are there specific inspection requirements for properties that are located in counties subject to a FEMA Presidential Declared Major Disaster Area that have not closed and have appraisal inspection dates prior to the disaster incident?

The Agency does not require a specific type of inspection. However, lenders should conduct due diligence to ensure that potential damage to the security property has not occurred.

The Agency expects lenders to conduct due diligence to ensure that potential damage to the security property has not occurred. If an appraisal was obtained prior to the natural disaster,

it is the lender's responsibility to ensure the value of security property has not changed. Although inspections are not be required by the Handbook; please remember that in accordance with your participation agreement (Form RD 3555-16), it is the lender's responsibility to use sound business practices and ensure the adequacy of any collateral securing the loan. This applies to all submissions including properties that may have been affected by a recent natural disaster after the appraisal has been completed, pre or post commitment, but prior to loan closing.

67. Clarity on crawl spaces. If the crawl space box isn't checked, is the appraiser going to make a note to the appraisal? Is that required?

The Agency defers to MPR requirements in HUD Handbook 4000.1 which state, in part, that the appraiser must visually observe areas of the crawl space and notify the Mortgagee of the deficiency of MPR and MPS when the crawl space does not satisfy certain criteria. Any deficiencies noted must be addressed and render the appraisal subject to inspection and repairs if necessary.

68. Do you follow FHA property flipping guidelines?

It remains the lenders responsibility to ensure any recently sold property's value is strongly supported when a significant increase between sales occur. The lender must perform a thorough review of the appraisal report to validate and support the property's value and protect the applicants from possible predatory real estate lending.

69. Does RD allow over-improvements? Improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range, such as a property with an in-ground swimming pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements.

Approved lenders must select qualified and competent appraisers that are properly licensed or certified, as appropriate, in the State in which the property is located. The market or sales comparison approach is required in all cases. Not less than three comparable sales will be used unless the appraiser provides documentation that such comparable sales are not available. The appraiser must use their knowledge of the area and apply good judgment on the selection of comparable sales that are the best indicators of value for the subject property. The appraiser will determine if the cost approach is required. For example, if the property is unique, or has specialized improvements, or is new manufactured housing, or if the client requests the cost approach to be completed, then the appraiser will identify the source of cost estimates and will comment on the methodology used to estimate depreciation, effective age and remaining economic life. The agency relies on the qualified and expert opinion of the appraiser.

70. How do you appraise Native American Property?

On Tribal lands, it may be difficult to obtain adequate comparable sales to appraise a property. When the sales comparison approach cannot be developed for a credible opinion or conclusions regarding value, the lender's appraiser may use other methods in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP) and perform an

appraisal without completing the sales comparison approach to value. Appraisers must explain the exclusion of the sales comparison approach to value and document their efforts to obtain comparable market data along with an explanation for any sales data not used. The primary method that the appraiser is relying on should be summarized to the extent that the user or a review appraiser can understand the reasoning and support of the valuation and conclusions.

If the appraiser is using the cost approach, external depreciation based on the remoteness of the site must not be considered; however, factors that impact the site should be included. If the appraiser is using the income approach, they must explain why the income and expenses used are comparable to the subject property. When a market is established in these areas, the Agency will again require the sales comparison approach to be used.

71. To extend the 90 days you have to get an Appraisal Summary Report known as a Recertification of value to extend, correct?

The validity period of an appraisal report can be extended only one time with an Appraisal Update Report. The appraisal may be expired at the time the appraisal update is requested. However, when the original appraisal is subsequently updated, the appraisal is valid for no greater than 240 days from the effective date of the original appraisal report at loan closing. The USPAP states that there are three ways that the reporting requirements can be satisfied for this type of assignment:

1. Provide a new report without incorporation of the prior report
2. Provide a new report that incorporates by attachment specified information/analysis from the prior report
3. Provide a new report that incorporates by reference specified information/analysis from the prior report

Origination and Procedural

72. What is the allowable loan amount (financing closing costs)?

USDA will guarantee loans for single family dwellings up to 100% of the appraised value, plus the guarantee loan fee, subject to the borrower's repayment ability.

73. Do we need the RD approval from the issuance of form 3555-18 prior to lender issuing a lender commitment?

USDA does not regulate lenders "pre-approval" process, however, the loan may not close without the issuance of the RD Form 3555-18 Conditional Commitment for Single Family Housing Loan Guarantee.

74. But, you can't close without a 3555-18 from RD?

Yes. This is correct.

75. A file was submitted as a TBD and whenever I go to the property eligibility page I am able to verify the city, but the subject property address has not yet been determined. I am needing to verify the income allowance, but cannot generate due to not having the address yet.

There are two ways to determine income eligibility for the guaranteed program. By utilizing the [Median Household Income](#) link on the SFH Guaranteed Lender webpage, you can follow the steps at the prompts under the Income Eligibility tab by selecting the state which the property is located in, followed by the county and then answer the questions as indicated on the site. Or, you may select the Income Limits tab on the same site, which will download a map of the United States. Click on the state where the property is located and then you may determine income limits by locating the county or area where the property is located to verify moderate income limits based on the household size of the applicant.

If you are still having issues using this method, please reach out to our Policy, Analysis and Communications Branch at sfhgld.program@usda.gov

76. Can a borrower roll in cost of repairs into the loan? The roof needs to be replaced but the seller is only willing to contribute what insurance pays. This would leave about 3,000 owed. The roof would be completed prior to closing. Can the buyer roll in the additional \$3000 if the appraised value comes in higher than the sales price and, if so, does the appraisal need to be marked subject to?

Yes. Repairs associated with the purchase of the dwelling constitute an eligible loan purpose. The maximum loan amount cannot exceed the cost of acquisition plus the cost of repairs up to the as-improved market value, plus the guaranteed fee, if financed.

77. If a borrower has ownership in a parent's home that is more in the form of a trust (in the event the parents passed away), can borrower purchase a new home with USDA guarantee?

An applicant who owns a dwelling to which they will retain ownership may be eligible for a guaranteed loan. It is not the intent of the SFHGLP to assist borrowers in building an investment portfolio. The loan applicant is limited to owning one single family housing unit, whether adequate or inadequate, other than the house associated with the loan request.

Applicants may purchase another home through the SFHGLP if the following criteria is met:

- Current dwelling is not financed by a Rural Development guaranteed or direct 502 loan (including cosigned obligations), or 504 loan or active grant;
- The applicant must be financially qualified to own more than one home;
- The applicant must occupy the home that will be financed with the guaranteed loan as their primary residence throughout the term of the loan, and;
- The current home owned no longer adequately meets the applicants' needs, such as:
 - Relocation due to a new job opportunity
 - Requires larger home to accommodate growing family

- Obtaining a divorce and the ex-spouse will retain the dwelling
- Is a non-occupying co-owner or co-borrower on another mortgage loan and wants to purchase their own dwelling

78. How do we do the USDA income test?

The lender is responsible to confirm applicants and households meet eligibility criteria for the SFHGLP. Lenders must calculate and document annual, adjusted and repayment income. The SFHGLP assists low to moderate income households. A public website <http://eligibility.sc.egov.usda.gov/eligibility/> is available to assist in the calculation of annual and adjusted annual income. Additionally, Attachment 9-B, Worksheet for Documenting Eligible Household and Repayment Income which is located in Chapter 9 of our HB-1-3555 assists lenders in determining eligible household income for the SFHGLP.

79. If a buyer sells a home and nets \$50K from the sale prior to a USDA purchase, would that disqualify them? How much is too much in net profit?

There is not a specific limit on the amount of liquid assets, however, the test for conventional credit still applies. The lender and applicant will certify on Form RD 3555-21 that the applicant is unable to secure conventional credit. The certification can be made if the applicant does not meet the cumulative requirements to obtain a conventional credit loan. Traditional conventional credit is defined for Agency purposes as:

- The applicant has available personal non-retirement liquid verifiable asset funds of at least 20% of the purchase price that can be used as a down payment;
- The applicant can, in addition to the 20% down payment, pay all their closing costs associated with the loan;
- The applicant can meet qualifying ratios of no more than 28% PITI and 36% TD when applying the 20% down payment; and
- The applicant demonstrates qualifying credit for such a loan. The conventional mortgage loan term is for a 30-year fixed rate loan term without a condition to obtain private mortgage insurance (PMI).

80. Is it OK to escrow for repairs that cannot be completed prior to closing? Example, a roof repair that can't be completed prior due to weather.

Repair escrows, post issuance of the Loan Note Guarantee, are acceptable provided the home is habitable and the repairs do not affect the livability of the dwelling, nor the health or safety of the occupants, as determined by the lender. For those repairs that do affect the livability of the home or health and safety of the occupants, the lender can hold funds for the repairs, however the Loan Note Guarantee could not be requested until the repairs affecting the livability of the home are complete. Guidance on repair escrows can be found in Chapter 12 of HB-1-3555, Section 12.9C.

81. Why is lava zone 2 considered an issue?

The Agency defers to the HUD Handbook 4000.1 which states, in part, "When a Property is located in Hawaii, the Appraiser must review the U.S. Geological Survey (USGS) [Lava Flow](#)

[Hazard Zone maps](#). The Appraiser must notify the Mortgagee of the deficiency of MPR or MPS if the Property is located in Zones 1 or 2. The Appraiser must report in the “Comments” section that the Property is in the Lava Flow Hazard Zone and provide the Zone Number.”

82. On the new (GUS) system, if we have “newly build-new construction” home do we select the box? Because it then asks us to break it down, is this necessary when built by a builder?

In GUS, if the purchase is “New” the lender will select “new” for purchase, then the “New Construction Dwelling” field will be enabled. The lender will complete the data entry, as applicable, on the Additional Data page.

83. Is loan closing the Note date or the funding date?

The date of closing is defined as the closing date listed on the Closing Disclosure and entered on the “GLS Add Loan Closing” screen.

84. What steps are needed to complete a renovation loan for a USDA loan?

The rehabilitation and repair feature of the SFHGLP allows borrowers to finance the cost of repairs to improve an existing dwelling at the time of purchase. The maximum loan amount cannot exceed the cost of acquisition plus the cost of repairs up to the as-improved market value, plus the guaranteed fee, if financed. The borrower obtains one loan at a fixed interest rate to finance both the acquisition and the rehabilitation of the property. The loan is guaranteed after the loan has closed, prior to the completion of the repairs which minimizes the risk to the lender. In GUS, the lender will select “Purchase” as the loan purpose type on the “Loan and Property Information” page. On the Lender Loan Information page, the lender will identify the transaction as “Renovation, Construction-Conversion/Construction-to-Permanent” and select the “Single-Close” radio button. On the “Additional Data” page, “Purchase is” field equals “Existing”.

Unless otherwise specified, the rehabilitation and repair construction loan process should be closed and managed following the same procedures described in the single-close feature for new construction.

Ratio Analysis

85. HB-1-3555, Chapter 11 does not appear to have been updated with the new 11.2.b verbiage for student loan payments. Where can we get the updated verbiage?

Updates to Chapter 11 in our HB-1-3555 may be found by utilizing the [USDA LINC Training and Resource Library](#) website. The Handbook is located under the Loan Origination section, Documents & Resources [HB-1-3555 SFH Guaranteed Loan Program Technical Handbook](#)

86. If the student loan is payment is listed as \$0, do we still use .5% of the balance as the payment?

Yes. One half (.50) percent of the outstanding loan balance documented on the credit report or creditor verification, when the payment amount is zero.

87. The Student loan on the credit report shows zero for the payment due. Do we use zero or do I show .50% of the balance for payment?

For fixed payment loans, a permanent amortized, fixed payment may be used in the debt ratio when the lender retains documentation to verify the payment is fixed, the interest rate is fixed, and the repayment term is fixed. The fixed payment will fully amortize in full debt at the term.

For non-fixed payment loans, such as deferred loans, income based repayment loans, income contingent, graduated, adjustable and other types of repayment agreements which are not fixed must use the following:

- The current documented payment under the approved repayment plan with the creditor, when the payment amount is above zero; or
- One half (.50) percent of the outstanding loan balance documented on the credit report or creditor verification, when the payment amount is zero

88. How are income-based repayment plans now considered? Can you use income driven payments for student loans?

For non-fixed payment loans, such as deferred loans, income based repayment loans, income contingent, graduated, adjustable and other types of repayment agreements which are not fixed must use the following:

- The current documented payment under the approved repayment plan with the creditor, when the payment amount is above zero; or
- One half (.50) percent of the outstanding loan balance documented on the credit report or creditor verification, when the payment amount is zero

89. What are some of the reasons a debt waiver would be granted on a manual underwrite loan?

Chapter 11, Paragraph 11.3(A)(2) outlines the specific requirements for debt ratio waivers. These include maximum ratios of 32% PITI and 44% Total Debt, a minimum credit score of 680, and the presence of at least one of the identified compensating factors from this section of the Handbook.

90. Not clear on debt to income ratio waiver. What constitutes an eligible?

GUS files that receive an Accept or Accept Full Documentation underwriting recommendation do not require debt ratio waivers. For GUS Refer, Refer with Caution, and manually underwritten loans without GUS assistance, the lender must document eligible compensating factors to support a debt ratio waiver. Agency approval of a lender's request for a debt ratio waiver may be granted if all of the required conditions are met. Chapter 11 of our HB-1-3555, 11.3, Debt Ratio Waivers and Compensating Factors outlines those conditions for both purchase and refinance transactions.

91. For the updated guideline that says revolving accounts without balances do not need to be closed, is that referring to paying off the debt?

The update to HB-1-3555, Chapter 11.2B Total Debt Ratio states that “Revolving accounts with no outstanding balance are not required to be closed.” Thus, if a revolving account has a zero balance, it could remain an open account and would not be required to be closed.

92. Do you have a manual underwrite? What is the current allowed DTIs?

Yes, we have manual underwrite in some cases, such as GUS Refer, Refer with Caution, Streamlined Assist Refinance, as well as for the Manufactured Home Pilot Program.

Total Debt Ratio should not exceed 41%. In the case of a Debt Ratio Waiver requests, the maximum Total Debt Ratio should not exceed 44%. Additional conditions are required for Agency consideration to approve a debt ratio request. Those can be found in Chapter 11.3 of our HB-1-3555.

93. Housing Debt ratio is a drawback from borrowers who don't have a lot of debt and buying in high cost areas. Will that change anytime soon?

The standard ratios are 29% PITI and 41% Total Debt, however with consideration of all facets of the application, GUS may return an “Accept” recommendation for files with ratios exceeding these guidelines. If the GUS recommendation is not an accept, and the proposed ratios exceed 29% PITI and 41% TD, the requirements for debt ratio waivers and compensating factors, as identified in [Chapter 11 of HB-1-3555 and the 7 CFR 3555](#), would apply.