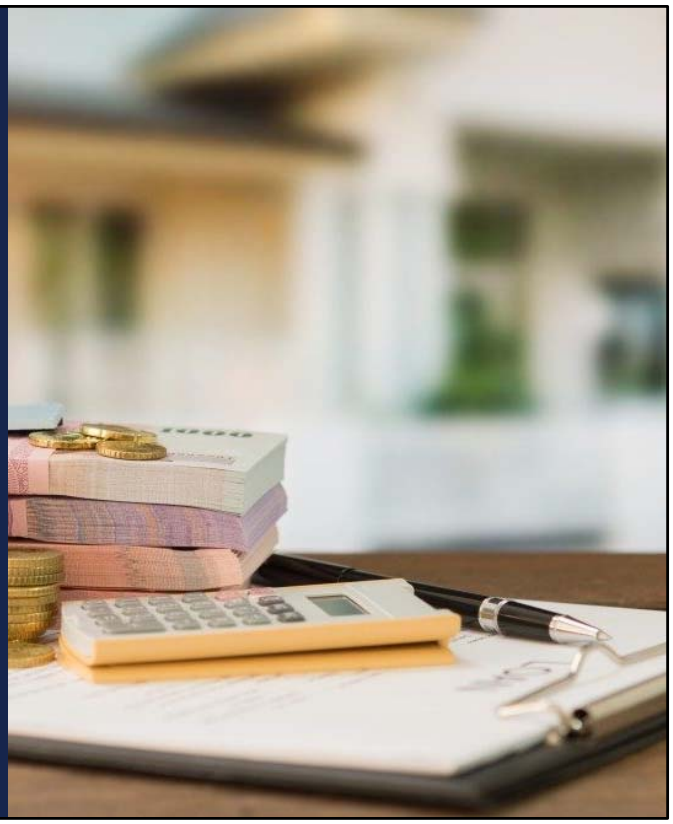
USDA Rural Development
U.S. DEPARTMENT OF AGRICULTURE

Loan Purposes and Restrictions

Single Family Housing Guaranteed Loan Program (SFHGLP)

November 2020



Welcome to the Loan Purposes and Restrictions training module presented by USDA's Single Family Housing Guaranteed Loan Program.

Loan Purposes and Restrictions

Be prepared to inform!

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This training module will cover two objectives;
the review of eligible loan purposes and costs and
the review of loan restrictions and ineligible use of funds.

Eligible Loan Purposes

HB-1-3555, Chapter 6.2 & 7 CFR 3555.101

- There are four key components to ensuring loan funds are used on eligible loan purposes.
- Loan Funds must be used for costs associated with the purchase of a site with a new or existing property that will be used as the borrower's primary residence.
- Additional expenses, such as the repair and rehab of that dwelling and/or expenses associated with the purchase, may also be included in the financing.
- Refinancing is also an option under specific situations.

Eligible Loan Purposes

HB-1-3555, Chapter 6.2A & 7 CFR 3555.101

Acquiring a Site and Dwelling

- Acquire a site with a new or existing dwelling
- Must meet the Agency's site, dwelling, and environmental requirements, OR
- Will meet once planned rehabilitation or repair work is completed
  - Requirements are addressed in Chapter 12 of HB-1-3555

- Guaranteed loan funds may be used to acquire a site with either a new or existing dwelling that meets the site, dwelling and environmental requirements found in chapter 12 of HB-1-3555 or a site that will meet the Agency's requirements once planned rehabilitation or repair work is completed.

Eligible Loan Purposes

HB-1-3555, Chapter 6.2B & 7 CFR 3555.101

Repairs and Rehabilitation

- Lender may request the Loan Note Guarantee prior to work completion.
- Loan Note Guarantee is issued post closing but prior to completion of repairs and renovation work.
- Loan may be sold immediately on the secondary market following issuance of the Loan Note Guarantee.

- One of the biggest advantages of using Guarantee loan funds for a purchase with repair and/or rehabilitation is that the Lender may request the loan note guarantee prior to the work being completed.
- Lenders are able to immediately sell the loan to the secondary market and securitize the loan.
- An in-depth training module on purchase with rehab and repair is available for viewing in the LINC Training System.

Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Loan Acquisition Expenses
  - Legal Fees
  - Architectural
  - Engineering
  - Title & Homeowners Insurance
  - Guarantee Fee
  - Appraisal
  - Survey
  - Tax Monitoring
  - Homeowners Education Counseling

- Guaranteed loan funds may be used for expenses associated with the purchase of a dwelling if they are reasonable and customary.
- In addition to the financing of the upfront Guarantee fee, most conventional home purchase expenses are allowable, and are more specifically outlined in the HB-1-3555, Chapter 6.2C

Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Reasonable Lender Fees
  - Financed fees may include the origination fee and other fees and charges.
    - Must meet limits published by the CFPB.
    - Must not exceed fees charged for similar transactions such as FHA-insured or VA-guaranteed first mortgage loans.
  - Finder's fees or placement fees may not be included in the loan amount.
  - Only discount points that reduce the effective interest rate may be financed.

- Lender Fees and charges must meet the limits as published by the Consumer Financial Protection Bureau (CFPB) and cannot exceed those charged to other applicants by the lender for similar transactions such as FHA-insured or VA-guaranteed first mortgage loans.
- Payment of finder's fees or placement fees for referral of an applicant to the lender may not be included in the loan amount.
- Discount points that reduce the effective interest rate may be financed.

Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Closing Costs (Reasonable & Customary)
  - May be paid for with loan funds.
    - Must not exceed costs charged for similar transactions such as FHA-insured or VA-guaranteed first mortgage loans.
  - Seller contributions (or other interested parties) are limited to 6% of the sales price and must represent an eligible loan purpose.
    - Six percent limit does not include:
      - Closing costs and/or prepaid items paid by the lender through premium pricing.
      - Upfront guarantee fee.

- Loan funds can also be used for Closing costs that are reasonable and customary.
- Seller contributions are limited to six percent of the sales price and must represent an eligible loan purpose.
- The six percent does not include closing costs and/or prepaid items paid by the lender through premium pricing or the upfront guarantee fee.

Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Connection, Assessment, and Installment Fees
  - Connection Fees
  - Assessments
  - Pro Rata Utilities
  - Water
  - Sewer
  - Electricity
  - Gas

- Reasonable and customary costs for utilities for which a buyer is liable are eligible costs.

Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Taxes and Escrow Accounts
  - Real Estate Taxes
  - Hazard Insurance Premiums
  - Flood Insurance Premiums

- A pro rata share of real estate taxes that are due on the property at the time of closing as well as the funds to establish the escrow account for the taxes and insurance premiums are eligible costs.

Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Single Close to Permanent Construction
  - Inclusion of all reserve accounts
  - PITI
  - Contingency Reserve
  - Interest Payments During Construction
  - Customary Construction Costs
  - Landscaping

- Costs specific to Single Close Construction to Permanent loans, including construction period loan payments, customary construction costs , landscaping, and all reserve accounts are also allowable loan purposes.
- More detailed information on the Single Close to Permanent Construction is provided in Chapter 12 of HB-1-3555.
- A LINC Training module has also been prepared on this topic.

Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Design Features or Equipment for Physical Disabilities
  - Special design features
  - Permanently installed equipment
  - Interior or exterior

- Special design features or permanently installed equipment to accommodate a household member who has a physical disability is an eligible loan purpose.
- The purchase of personal items, such as wheelchairs or walkers would not be an eligible use of loan funds.

Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Essential Household Equipment
  - Wall to Wall Carpeting
  - Ovens
  - Ranges
  - Refrigerators
  - Washers and Dryers
  - Heating and Cooling Equipment

- Purchase of essential household equipment such as major appliances that typically transfer with property are an eligible use of loan funds.

Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Energy Efficiency Measures
  - Insulation
  - Double-paned Glass
  - Solar Panels

- Similarly, the addition or purchase of energy efficient measures such as insulation, double-paned glass and solar panels are an eligible use of loan funds as well.

Eligible Loan Purposes

HB-1-3555, Chapter 6.2C & 7 CFR 3555.101

Reasonable and Customary Expenses

- Broadband
  - Installation of Fixed Broadband Service
- Site Preparation
  - Grading
  - Foundation Plantings
  - Seeding or Sod Installation
  - Trees
  - Walks
  - Fences
  - Driveways

- Guaranteed loan funds may be used to install fixed broadband service to the household if the equipment is conveyed with the dwelling.
- Site preparation and landscaping are also eligible costs.

Eligible Loan Purposes

HB-1-3555, Chapter 6.2D & 7 CFR 3555.101

Refinance

- Construction Financing
  - "Take out/interim financing" to construct a new dwelling or improve an existing dwelling
- Site without a Dwelling
  - An eligible dwelling must be constructed on the site prior to the Loan Note Guarantee being issued.
- Existing Section 502 Direct and Guaranteed Loans
  - The interest rate must not exceed the interest rate of the existing loan.
  - Not a loss mitigation option.
  - "Cash out" not allowed.

- The Single Family Housing Guaranteed Loan Program provides three opportunities to refinance a loan.
- Refinancing is allowed for the take out financing to construct a new dwelling or improve an existing dwelling.
- A site without a dwelling is eligible for a refinance when an eligible dwelling will be constructed on the site prior to the Loan Note Guarantee being issued.
- Existing Rural Development Direct and Guaranteed Loan borrowers are eligible to refinance their current RD loan into a guaranteed loan when the interest rate is lower than the existing loan.
- Although Borrowers are not eligible to receive "cash-out" from the refinance transaction, in certain cases, borrowers may receive reimbursement at settlement for their personal funds advanced for eligible loan purposes.

Eligible Loan Purposes – Refinance Options

HB-1-3555, Chapter 6.2D3 & 7 CFR 3555.101

1 Non-Streamlined

- ✓ Requires a new appraisal
- ✓ Include all eligible loan costs up to appraised value (plus the upfront guarantee fee)
- ✓ Add or remove borrowers
- ✓ The GUS may be utilized

2 Streamlined

- ✓ No appraisal required
- ✓ Include only principal, interest, re-conveyance fee, and upfront guarantee fee
- ✓ Add or remove borrowers
- ✓ The GUS may be utilized

3 Streamlined-Assist

- ✓ No appraisal required
- ✓ Include all eligible loan costs
- ✓ Add borrowers; remove only if deceased
- ✓ Must receive tangible benefit of $50 or more
- ✓ Credit history and DTI not considered except for 12-month verification of mortgage
- ✓ Must be manually underwritten

- This slide summaries the refinance options available to current Rural Development Guaranteed or Direct borrowers.
- A separate LINC training is available and provides a more in-depth review of the refinance process and options and a more detailed matrix is located at the end of Chapter 6 in HB-1-3555.

Prohibited Loan Purposes

HB-1-3555, Chapter 6.3 & 7 CFR 3555.102

1 LOAN DISCOUNT POINTS

Other than to reduce the effective interest rate, such as compensate for low credit score, are prohibited.

2 INCOME PRODUCING LAND OR BUILDINGS

Principally used for income producing purposes is not allowed. (Ref. HB-1-3555, Ch. 12)

3 EXISTING MANUFACTURED HOMES

Are not eligible unless the unit is already financed by the Agency or is eligible under the Pilot Program. (Ref. HB-1-3555, Ch. 13)

4 LEASE PAYMENTS

Payment on any lease agreement associated with the proposed real estate transaction is prohibited.

5 SELLER OR INTERESTED PARTY CONTRIBUTIONS

May not exceed 6% of the sales price and must represent an eligible loan purpose.

6 CLOSING COSTS

Closing costs, including lender fees, may not exceed 3% of the total loan amount, unless allowed per CFPB. (Does not include guarantee or annual fee.)

- Guaranteed Loan Funds may not be used for certain costs associated with single family home purchases and certain types of properties.
- Many of these items are discussed in detail in other Chapters of the Handbook.
- Some of the key prohibited purposes are:
- #1 - Loan Discount Points other than to reduce the effective interest rate.
- #2 - Land or buildings that will be principally used for income producing purposes.
- #3 – Existing manufactured home purchases

  Payment on any lease agreement associated with the proposed real estate transaction.
- #5 –Seller or other interested party contributions towards closing costs that exceed the 6% allowable limit.
- #6 - Closing costs, including lender fees, that exceed 3% of the total loan amount, unless flexibility is provided through guidance published by the CFPB. This total does not include the upfront guarantee fee or annual fee.

LEARNING CHECKS

7 CFR Part 3555 / HB-1-3555

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

QUESTION

Topic

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

TRUE/FALSE or other answer options will be displayed

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The following question slides will list:

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

ANSWER

Topic

7 CFR Part 3555 and HB-1-3555 references provided

X. Correct Response

- Additional guidance for clarification may be provided

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The answer slides will list:

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

Ready?

LET'S GET STARTED!

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Let's get started!

QUESTION

Loan Purposes and Restrictions

- Appraised Value = $150,000
- Purchase Price = $135,000
- The Applicant wishes to use the equity available to finance a wheelchair ramp, new kitchen and laundry appliances, and shrubbery.
- These are eligible loan purposes.

A. TRUE B. FALSE

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Read the question on the slide and select a response.

ANSWER

Loan Purposes and Restrictions

3555.101(b), HB 6.2C

A. TRUE

- Wheelchair ramp is eligible under “Design Features or Equipment for Physical Disabilities”
- Kitchen and laundry appliances are eligible under “Essential Household Equipment”
- Shrubbery is eligible under “Site Preparation”

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True.

Each item listed is an eligible authorized loan purpose under 3555.101(b). It is the appraised value which will determine which, if not all, of the items may be included in the total loan amount. Reference 3555.103 which states the maximum loan amount will be the appraised value, plus the upfront Guaranteed Fee

QUESTION

Loan Purposes and Restrictions

- Purchase Price = $100,000
- Seller Concessions may not exceed

A. $3,000 (3%) B. $6,000 (6%)

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Maximum Seller Concession may not exceed A. $3,000 which represents 3% of the Purchase Price or B. $6,000 which represents 6% of the Purchase Price

ANSWER

Loan Purposes and Restrictions

3555.101(b), HB 6.2C

B. $6,000

- 6% of Purchase/Sales Price is eligible
- Limited to seller/interested third party contributions
- Must be used for authorized loan purposes

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The answer is “B”, $6,000 which represents 6% of the purchase or sales price

This is limited to seller or interested third party contributions and funds must be used for eligible loan purposes only

QUESTION

Loan Purposes and Restrictions

- Eligible Interest Rate = 5%
- Applicant uses $2,000 of seller concessions to permanently buydown the interest rate to 3.75%.
- This is an eligible use of loan funds.

A. TRUE B. FALSE

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Read the question on the slide and select a response.

ANSWER

Loan Purposes and Restrictions

3555.101(b)(6)(iv), HB 6.3

A. TRUE

- Discount Points to permanently reduce the interest rate is an eligible loan purpose.
- Seller Concessions are loan funds and must be used for eligible loan purposes.

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This answer is True. Discount Points may be used to permanently buydown the interest rate.

QUESTION

Loan Purposes and Restrictions

USDA has published internal thresholds allowable for lender points, fees, and charges.

A. TRUE

B. FALSE

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Read the question on the slide and select a response.

ANSWER

Loan Purposes and Restrictions

3555.101(b), HB 6.2C

B. FALSE

Although USDA requires lenders to follow Federal and State laws, it is the Consumer Financial Protection Bureau (CFPB) that publishes the guidelines.

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False. USDA requires lenders to follow Federal and State laws, however the CFPB establishes and publishes those guidelines.

QUESTION

Loan Purposes and Restrictions

Which of the following is not an eligible loan purpose:

A. Appraisal Fee
B. Realtor Administrative Fee
C. Discount Points to Permanently Reduce the Interest Rate
D. Realtor Commissions

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Read the question on the slide and select a response.

ANSWER

Loan Purposes and Restrictions

3555.101(a)(6)(vii) and (xii), 3555.102(h)

HB 6.2C and 6.3

D. Realtor Commissions

- Fees towards applicant's cost to close such as real estate commission which are typically paid by the seller are not eligible for guaranteed loan funds.
- Additionally, real estate commission and other typical fees paid by the seller are not considered in the maximum six percentage points of sale price contribution calculation.

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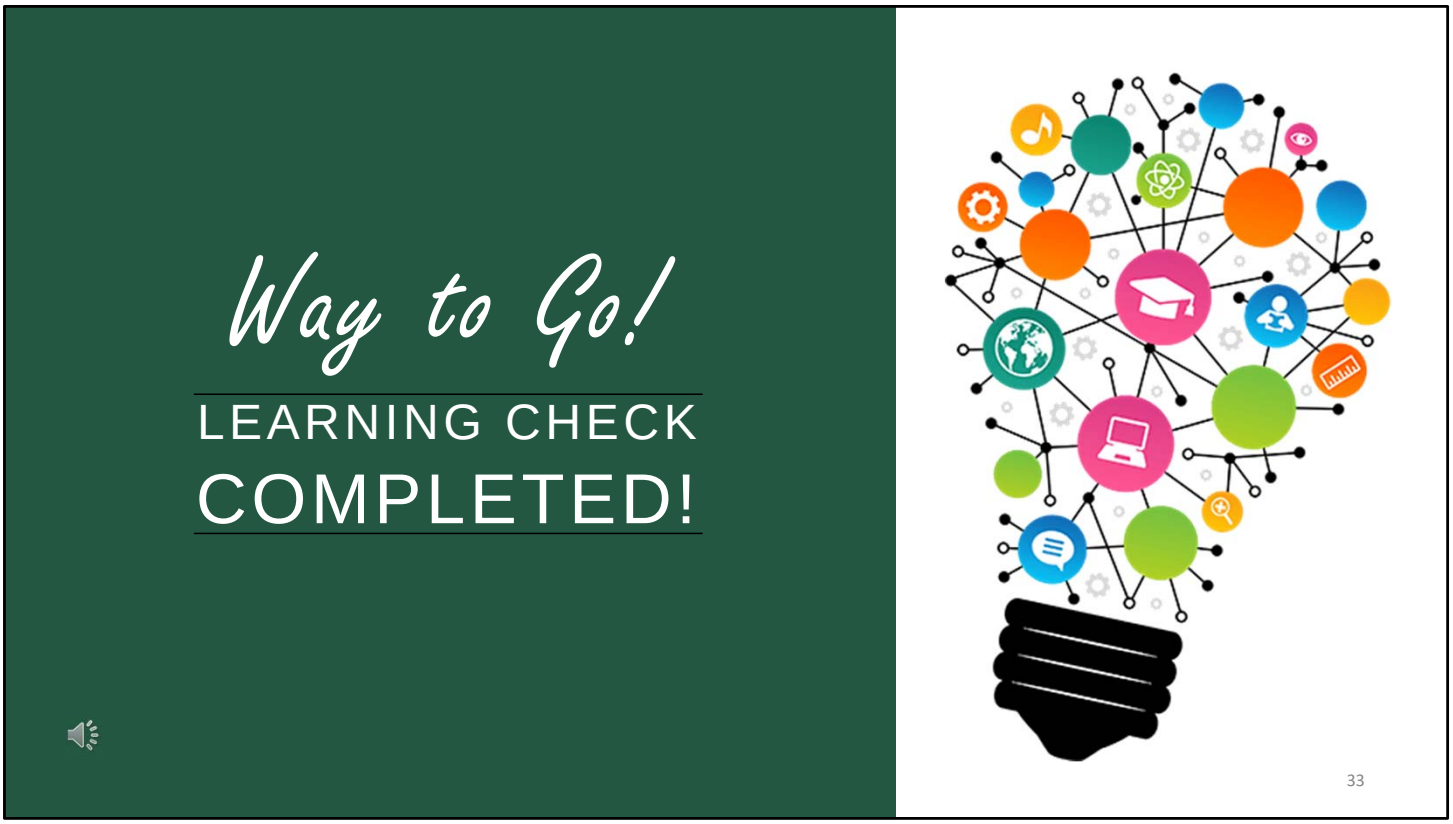
The answer is D – Realtor Commission. Payment for Commissions or other typical fees paid by the seller are not eligible for guaranteed loan funds. These costs are also not included in the six percentage points of the sales price calculation for maximum seller contribution.



Way to go! You have completed the learning checks!

Lender Toolkit

Rural Development has developed numerous tools and resources to assist lenders with originating, processing, and servicing guaranteed loans.

- This training module has provided you with an overview of the key requirements of Loan Purposes and Restrictions.
- Complete program requirements and guidance can be found in 7 CFR Part 3555, Subpart C, Sections 3555.101 and .102 and Chapter 6 of HB-1-3555.
- Be sure to bookmark these references, save yourself valuable time by using Cntrl-F to quickly search and find answers, and always ensure you are referencing the most current publications.
- The “Program Overview Training” module will assist you in learning how to navigate through all the resources and tools Rural Development has created to assist you.

Have a question on POLICY?

Contact the PAC team!

Need TRAINING?

Contact the LPA team!

Have a question on a SPECIFIC FILE?

Contact the OPD!

USDA Rural Development
U.S. DEPARTMENT OF AGRICULTURE

Single Family Housing Guaranteed Loan Program (SFHGLP)
Contacts & Resources

TOPIC	CONTACT
File-Specific Questions Information to include in email: • Identify the state the application is located; if applicable; • Provide applicant's name and USDA borrower ID, if applicable; • GUS loan number, if applicable • Include contact information; and • Indicate if you would like a call back (otherwise you will receive an email reply)	Production Team One: SFHGLPONE@usda.gov AK, AL, AZ, CA, CO, GU, HI, IA, ID, KS, MT, NM, NV, OR, SD, TX, UT, WA, WI, WP, WY Production Team Two: SFHGLPTWO@usda.gov AR, KY, LA, MN, MO, MS, ND, NE, NJ, NY, OK Production Team Three: SFHGLPTHREE@usda.gov CT, DE, GA, IL, MA, MD, ME, MI, NC, NH, RI, SC, VT, WV Production Team Four: SFHGLPFOUR@usda.gov FL, IN, OH, PA, PR, TN, VA, VI
Lender Approval	sfhgld.compliance@usda.gov
Lender Recertification	
Program Training	sfhgld.lenderpartner@usda.gov
Program Marketing & Outreach	
General Loan Scenario Questions	sfhgld.program@usda.gov
Loan Policy/Regulation/Handbook	
Loan Servicing	sfhglpservicing@usda.gov
Technical Issues: e-Authentication	eAuthHelpDesk@ftc.usda.gov 800-457-3642, option 1 (USDA e-Authentication Issues)
Technical Issues: GUS	RD.HD@STL.USDA.GOV 800-457-3642, option 2 (USDA Applications); then option 2 (Rural Development)
Loss Claims	guarantee.svc@stl.usda.gov
Monthly & Quarterly Status Reporting	rd.nfaoc.hsb@stl.usda.gov
GUS User Agreements	

TOOLS & RESOURCES

Regulation and Handbook: https://www.rd.usda.gov/resources/directives

Lender Webpage—Turn times, contact information, and helpful links: https://www.rd.usda.gov/page/sfh-guaranteed-lender

USDA LINC—Training modules, user guides, and more useful resources: https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library

GovDelivery—Receive notifications regarding origination, servicing, and GUS updates: https://public.govdelivery.com/accounts/USDARD/subscriber/new

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- Users should first look for answers to their questions in the regulation and handbook, but if you still have a question after reviewing your resources, we're here to help.
- All policy and regulation questions regarding the topic we just covered should be sent to our Policy, Analysis, and Communications Branch and
- If you would like to request additional program training, contact our Lender and Partner Activities Branch.

The Single Family Housing Guaranteed Lender webpage was specifically designed for our lending partners and includes information such as:

- Current turn times on new loan applications
- Contact information, and
- Links to program resources such as our 3555 Handbook and the USDA LINC website.
- Also, don't forget to sign up for our GovDelivery email notifications. Rural Development sends out origination, GUS, and servicing messages to alert lenders of new publications, clarifications, and additional program updates.

Thank you for supporting the USDA Single Family Housing Guaranteed Loan Program and America's rural homebuyers!

This will conclude the training module. Thank you and have a great day!