



Purchase with Rehabilitation and Repair Loans Single Family Housing Guaranteed Loan Program

 Rural Development
U.S. DEPARTMENT OF AGRICULTURE

Training Objectives:

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

7 CFR Part 3555

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

The screenshot shows the USDA Rural Development website. The header includes the USDA logo, the text 'United States Department of Agriculture Rural Development', and navigation links: 'About USDA', 'Ask The Expert', 'Help', and 'En Español'. A search bar is located on the right. Below the header is a main navigation menu with links for 'Home', 'About RD', 'Programs & Services', 'Browse by State', 'Newsroom', 'Publications', and 'Contact Us'. The 'Publications' link is highlighted. The main content area is titled 'Regulations & Guidelines' and contains the following text:

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

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

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

Rural Development

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

7 CFR Part 3555

The screenshot shows the USDA Rural Development website with the 'Handbooks' page selected. The main content area lists several handbooks, with 'HB-1-3555 SFH Guaranteed Loan Program Technical Handbook' highlighted in yellow. To the right of the list is a detailed 'Table of Contents' for this handbook:

HB-1-3555 SFH Guaranteed Loan Program Technical Handbook

Table of Contents

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

Acronyms

Glossary

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

HB 12.28 - Purchase with Rehabilitation and Repair Loan

Applicant Advantages

- 100% financing
- Maximum loan amount: 100% of “As Improved” appraised value
- Upfront guarantee fee may be included above “As Improved” value
- No future loan amount changes, no re-amortization



HB 12.28 - Purchase with Rehabilitation and Repair Loan

Applicant Advantages

- Correct dwelling deficiencies
- Revitalize existing housing stock
- Retain personal reserves post-closing



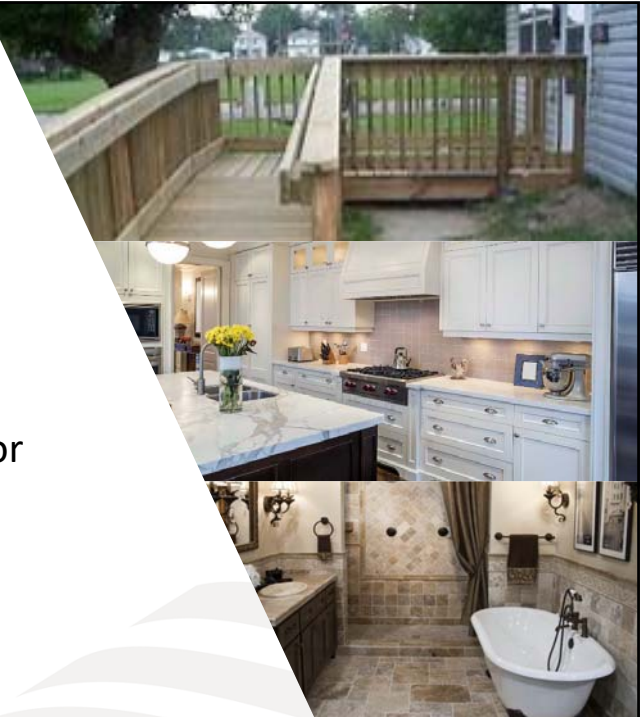
HB 12.28 - Purchase with Rehabilitation and Repair Loan

Lender Advantages

- **REDUCED RISK!**
- LNG is issued post-closing
- Repair/Renovation completed post-closing
- Immediate sale on secondary market

Eligible Loan Costs

- Upgrade/modernize kitchens, bathrooms, interior floor covers, etc.
- Create accessible amenities to accommodate disabilities
- Additions, structural alterations or reconstruction
- Install energy conservation or weatherization features



Eligible Loan Costs

- Repair or install septic systems and water wells
- Remove safety and health hazards
- Repair existing amenities; swimming pools, saunas and accessory units



Non-Structural Repairs

- Finance up to \$35,000 in repairs
- No minimum repair costs
- Dwelling must be habitable
- Contingency reserves allowed:
 - 10% utilities on
 - 15% utilities off

Structural Repairs

- Finance over \$35,000 in repair costs
- Qualified Inspector required; write-up and all inspections.
- Contingency reserves allowed
 - 10% utilities on
 - 15% utilities off
- PITI reserves; up to 6 months when the dwelling is not habitable.



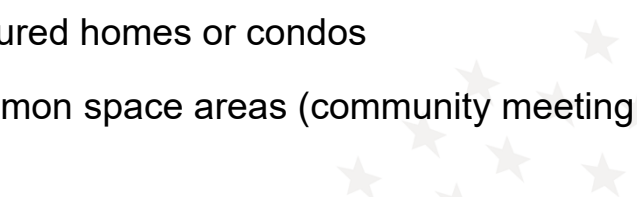
HB 12.28 - Purchase with Rehabilitation and Repair Loan

Prohibited Loan Purposes:

- Investment properties
- Install new inground swimming pools, hot tubs, or saunas
- Installation of luxury items (exterior fireplace and kitchen, etc.)
- Convert existing structures to SFH dwellings

HB 12.28 - Purchase with Rehabilitation and Repair Loan

Prohibited Loan Purposes:

- Alterations that allow income-producing features
 - Repair new or existing manufactured homes or condos
 - Repairs or improvements to common space areas (community meeting rooms, playground, etc.)
- 

HB12.28 - Purchase with Rehabilitation and Repair Loan

7 CFR 3555 / HB-1-3555

LEARNING CHECKS



HB 12.28 - Purchase with Rehabilitation and Repair Loan

- Ben and Leslie want to purchase an existing dwelling for \$85,000.
- The home is habitable. Repairs include: carpet, tile, kitchen cabinets and countertops.
- Total repair cost is \$35,000 plus \$3,500 contingency and \$500 of permit/inspection fees.
- The “as improved” market value of the property is \$125,000.

This proposal is eligible for a rehab/repair loan.
True/False

HB 12.28 - Purchase with Rehabilitation and Repair Loan

Answer: TRUE

3555.107(d) and HB 12.28

Part One: Maximum Loan Amount

- Purchase Price: \$85,000 + \$39,000 repairs/fees/contingency = \$124,000
- As-Improved Value : \$125,000
- Maximum Loan amount: \$126,262.60
 - \$125,000 - \$124,000 = \$1,000 closing costs + \$1,262.62 GRH Fee

HB 12.28 - Purchase with Rehabilitation and Repair Loan

Answer: TRUE

3555.105 and HB 12.28

Part Two: Loan Eligibility

- Home is habitable
- Ben and Leslie may occupy and make mortgage payments
- Lender must obtain interim and final inspections
- Lender will work with borrowers to approve disbursements for completed work

HB 12.28 - Purchase with Rehabilitation and Repair Loan

- After the loan closes, Ben and Leslie decide they don't want to renovate kitchen and instead want to add a covered patio with an outdoor kitchen.

**This proposal is eligible for a rehab/repair loan.
True/False**

HB 12.28 - Purchase with Rehabilitation and Repair Loan

Answer: FALSE **3555.105 and HB 12.24 and 12.28**

Loan Eligibility

- Proposed changes should not affect the scope of the project and/or affect the appraised value.
- An outdoor kitchen is considered a luxury feature and is a prohibited loan purpose.

HB 12.28 - Purchase with Rehabilitation and Repair Loan

- Using the same scenario, Ben and Leslie have an unused balance in the contingency reserve in the amount of \$3,000. New appliances were not included in their contract. They want to use the funds to purchase appliances for their newly renovated kitchen.

**This proposal is eligible for a rehab/repair loan.
True/False**

HB12.28 - Purchase with Rehabilitation and Repair Loan

Answer: TRUE **3555.105 and HB 12.24 and 12.28**

Loan Eligibility

- The change order does not change the scope of the work.
- New appliances are an eligible loan purpose.

HB12.28 - Purchase with Rehabilitation and Repair Loan

- April and Andy want to purchase an old 2 bedroom, 1 bath home on a 1 acre lot for \$30,000
- They want to add 2 bedrooms and a full bathroom. They expect the cost to be at approximately \$50,000.
- The lender's qualified inspector determined that the structure is too dilapidated and not stable enough to withstand renovations.
- He determines the foundation to be structurally sound.

This proposal is eligible for a rehab/repair loan.

True/False

HB 12.28 - Purchase with Rehabilitation and Repair Loan**Answer: TRUE****3555.105 and HB 12.28****Part One: Loan Eligibility**

- Obtain certification from qualified structural engineer that the existing foundation is sound.
- Qualified inspector assigned by their lender can develop a plan to raze the building and rebuild a new structure using the existing foundation.
- A qualified contractor can work with them to design and rebuild using the existing foundation and expand to suit their needs.
- The builder and inspector will work on the final cost estimate.

HB 12.28 - Purchase with Rehabilitation and Repair Loan**Answer: TRUE****3555.105 and HB 12.28****Part Two: Maximum Loan Amount**

- The “As Improved” market value of the property must cover the costs to purchase, demolish, and renovate; including inspection fees, PITI reserves and contingency fees, if applicable.
- The dwelling is not habitable; PITI reserves may be established to cover mortgage payments up to 6 months.
- No loan modification needed. Borrower takes over mortgage payments when the dwelling is deemed habitable.

HB 12.28 - Purchase with Rehabilitation and Repair Loan

- April and Andy's final cost for demolition and construction of the dwelling is \$110,000, including inspection and permit fees.
- 10% contingency reserve would equal to \$11,000.
- 6 month PITI reserves equal to \$7,077.24
- "As Improved" market value is \$150,000.

This proposal is eligible for a rehab/repair loan.
True/False

HB 12.28 - Purchase with Rehabilitation and Repair Loan

Answer: TRUE **3555.105 and HB 12.28**

Let's review:

Item	Amount
Maximum Loan Amount (\$150,000 + \$1,515.05 GRH fee)	\$151,515.15
Less Purchase/Demo/Reno Cost	\$140,000.00
Less financed GRH fee	\$ 1,515.15
Available Loan Funds	\$ 10,000.00

Remaining loan funds are not sufficient to cover both the 10% Contingency Reserves of \$11,000 and the 6-month PITI Reserves of \$7,077.24.

HB 12.28 - Purchase with Rehabilitation and Repair Loan

No problem!

A few options:

- Fund one of the reserves and reduce the other; amounts may be adjusted,
- Borrower may fund the remaining amount needed out of pocket,
- Omit one reserve. April and Andy must have sufficient cash reserves to cover either PITI payments and/or costs for change orders/cost overruns, if they occur.

Contingency and PITI Reserves are recommended but are optional.

HB 12.28 - Purchase with Rehabilitation and Repair Loan

- Jack and Diane want to purchase a two year old manufactured home.
 - Home is on a permanent foundation.
 - No interior work is needed.
 - They want to add a covered porch and a two-car garage for \$20,000.
- This proposal is eligible for a rehab/repair loan. True/False

HB 12.28 - Purchase with Rehabilitation and Repair Loan

Answer: FALSE **3555.102, 3555.105 and HB 12.28**

- Manufactured homes, condominiums and newly constructed homes are not eligible.

HB 12.28 - Purchase with Rehabilitation and Repair Loan



- This is a 100% LTV program.
- Include the amount of contingency and reserves in the construction contract
- Contract or worksheet similar to HUD 203(k) Form 92700

USDA LINC: Training and Resource Library

<https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library>



The screenshot shows the USDA LINC Training & Resource Library website. The header includes the USDA logo and navigation links: Home, About RD, Programs & Services, Browse by State, Newsroom, Publications, and Contact Us. The main content area is titled "USDA LINC Training & Resource Library" and lists various resources:

- 7 CFR 3555 | Electronic Status Reporting | Guaranteed Annual Fee | Guaranteed Underwriting System | Lender Loan Closing | Loss Claim Administration | Loan Origination | Loss Mitigation | Property Disposition | Security
- The documents and material contained in the USDA LINC Training and Resource Library use Adobe PDF and Adobe Connect. To view PDF files you must have Adobe Acrobat Reader installed on your computer.
- 7 CFR 3555
- Training
 - NEW** HB-1-3555 Chapter 9 Revision Overview (Webcast) 13 minutes
 - Revision Overview: 1 slide per page (Training Handout)
 - Revision Overview: 2 slides per page (Training Handout)
 - Revision Overview: Slide with Notes (Training Handout)
 - HB-1-3555 Chapter 9 FAQs
 - Become an Approved Lender (Webcast) 15 minutes
 - Become an Approved Lender: 1 slide per page (Training Handout)
 - Become an Approved Lender: 2 slides per page (Training Handout)
 - Become an Approved Lender: Slide with notes (Training Handout)



Thank you
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