



Rural Development

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TO: State Directors
Rural Development

ATTN: All Single Family Housing Direct
State and Field Employees

FROM: Joaquin Altoro
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For Rural Housing Service

SUBJECT: Temporary Authorizations Related to New Construction
Single Family Housing Direct Loan Programs

PURPOSE:

This memorandum announces the temporary authorizations related to costs, shortages, and delays for new construction financed and monitored under the direct loan programs. These authorities are a renewal of those offered via a [memorandum dated December 16, 2021](#).

These temporary authorizations are effective as of the date of this memorandum; and will remain in effect until this memorandum's stated expiration date or until revoked via a separate memorandum (whichever occurs first).

AUTHORITY:

The exception authority in 7 CFR 3550.8 permits the Administrator to grant the temporary exceptions described in this UL.

BACKGROUND:

According to the National Association of Home Builders lumber prices have increased by \$14,345 for an average single-family home, equating to a near 75% increase since the COVID-19 pandemic began in early 2020. Since then, the most serious material shortages and inflation have been noted with appliances, lumber, windows, and doors. Gypsum, and related products (drywall, Portland cement/concrete) have also experienced 50% increases in the past 24 months.

EXPIRATION DATE:
January 31, 2024

FILING INSTRUCTIONS:
Housing Programs

Additionally, contractors have encountered shortages of skilled labor which has had correspond impacts on construction scheduling (delays), pricing volatility, and added costs for our borrowers with their construction projects. While it is unknown when building material and labor costs will drop, the current market conditions will likely impact program applicants and borrowers for months to come. As a result, RHS has determined that the current requirements are adverse to the Government's interest and flexibilities must be provided at this time.

IMPLEMENTATION RESPONSIBILITIES:

To address the current issues with new construction, the Agency will temporarily:

- Increase the construction contingency permitted in Handbook (HB)-1-3550, Paragraph 5.23 A. from “not to exceed five percent of the construction cost” to “not to exceed 15 percent of the construction cost”. The increase would be allowed as a part of closing. The other conditions in this paragraph still apply.
- Ease certain requirements for subsequent loans at the end of construction for cost overruns only.
 - Provided change orders were handled in accordance with HB-1-3550, Paragraph 5.24 D:
 - An appraisal will not be required (HB-1-3550, Paragraph 5.17).
 - Full title clearance is not needed (HB-1-3550, Paragraph 8.4).
 - With the exception of checking the Department of Treasury's Do Not Pay portal, the borrower's credit history will not be evaluated (regardless of when the evaluation tied to the initial loan was made).
 - The applicable ratios (PITI and TD) can be exceeded with approval from the next level supervisor.

RD staff are reminded that:

- Protective advances are only considered when the Agency cannot provide a subsequent loan (see HB-1-3550, Paragraph 13.15 for further guidance).
- A Section 504 loan and/or grant can be extended to an existing Section 502 borrower provided the program eligibility requirements are met (e.g., acquisition rehabilitation type projects). Section 504 loan and/or grant cannot be used to assist in completing new construction.
- The maximum construction period outlined in Rural Development (RD) Instruction 1924-A, Paragraph 1924.5 (c)(1) permits up to 9 months after closing for non-self-help transactions and up to 15 months for self-help transactions. If construction has or will exceed the original construction term, RD field staff will need to request that the Servicing Office manually change the first payment due date in LoanServ to avoid the system from erroneously showing the account as delinquent. The request should be sent to the SFH Assistance Section email (RA.mostlouis3.field.support@usda.gov) and should include the account number as well as the new proposed first payment due date.

RD State Offices with questions regarding this memorandum should contact their Single Family Housing Direct Point of Contact.