


CHAPTER 12: SECTION 504 LOANS AND GRANTS

12.1 INTRODUCTION


The objective of the Section 504 loan/grant program is to help very low-income owner occupants of modest single family homes in rural areas repair their homes. Loan funds are available for repairs to improve or modernize a home, make it safer or more sanitary, or remove health and safety hazards. For homeowners 62 and over who cannot repay a loan, grant funds are available to remove health or safety hazards, or remodel dwellings to make them accessible to a household member with a disability. Attachment 12-A provides a summary of the differences between Section 504 loans and Section 504 grants, Attachment 12-B provides the differences between Section 502 and Section 504 loans, Attachment 12-C provides a processing and closing checklist, Attachment 12-D provides a checklist for assessment of an existing dwelling, and Attachment 12-E provides items included with a complete application.

 Only those procedures that differ from Section 502 loans are described in this chapter.

Unless otherwise specified in this chapter, Section 504 loan/grant applications should be accepted, evaluated, and closed following the same procedures described for Section 502 loans in Chapters 2 through 10. However, Section 504 loans **cannot** be assumed except on Same Rates and Terms as in Paragraph 2.4 B. In addition, a property survey is not required for a Section 504 loan or grant unless a mortgage or deed of trust is being filed and there is a compelling reason to question the placement of the dwelling on the property; or, in farm acreage cases, where the house site is subdivided from a larger parcel. The cost of a survey can be included in the loan if there is sufficient equity.

12.2 ELIGIBLE PURPOSES FOR 504 FUNDS [7 CFR3550.102]

Section 504 loan funds may be used to make general repairs to improve or modernize the property, as long as the dwelling remains modest. Loan Originators may approve any of the eligible costs listed in Paragraph 6.4, unless specifically prohibited in this chapter. Section 504 grant funds may be used only for repairs and improvements that will remove health and safety hazards, or to repair or remodel dwellings to make them accessible and useable for a household member with a disability.

 **Hazards and Major Hazards**
 A **hazard** is a property condition that jeopardizes the health or safety of the occupants or members of the community, but that does not make it unfit for habitation. A **major hazard** is a condition so severe that it makes the property unfit for habitation.

A. Restrictions on the Use of 504 Funds

Section 504 loan or grant funds cannot be used to:

- Assist in the construction of a new dwelling;
- Make repairs to a dwelling in such poor condition that when the repairs are completed, the dwelling will continue to have major hazards;
- Move a mobile home or manufactured home from one site to another;
- Pay for any off-site improvements except for necessary installation and assessment costs for utilities;
- Refinance any debt or obligation that the applicant incurred before the date of application (except for payment of the installation and assessment costs of utilities);
- Pay packaging fees to for-profit entities;
- Provide site preparation (e.g., grading, foundation plantings, seeding or sodding, trees, walks, yard fences, or driveways to a building site);
- Construct new decks (existing decks may be repaired if a safety hazard exists);
- Install concrete or asphalt driveways, although improvements to make the dwelling accessible and useable for a household member with a disability is an eligible purpose; or
- Landscape.


B. Repairs to Mobile or Manufactured Homes

Section 504 loan and grant funds can be used to repair mobile or manufactured homes if:

- The applicant owns the home and the site and occupied the home prior to filing an application;
- The repairs are needed to remove health or safety hazards; and

Paragraph 12.2 Eligible Purposes for 504 Funds [7 CFR 3550.102]

- The home is on a permanent foundation, or will be put on a permanent foundation with Section 504 funds.



Permanent Foundation
 A permanent foundation is either: (1) a full below-grade foundation; or (2) blocks, piers, or some other type foundation with skirting, and anchoring with tie-downs.

12.3 APPLICATIONS [7 CFR 3550.104]

Applicants interested in the 504 Program will be provided Form RD 410-4, Uniform Residential Loan Application, Form RD 3550-1, Request for Information, Form RD 3550-4, Employment and Asset Certification, and Attachment 12-E checklist. Applications received must be date stamped on page 8 of Form RD 410-4 upon receipt.

Applications must be reviewed within three business days of receipt to confirm the application is complete. The Loan Originator will send Handbook Letter 11 (3550), Request Information, to the applicant requesting any missing items and stating that their application will be withdrawn if the missing information is not received within 15 days (30 days may be allotted if the applicant is waiting for repair bid(s)). A complete Section 504 application includes applicable items listed on Attachment 12-E checklist.

The Loan Approval Official will make a determination of eligibility within 30 days of receiving a complete loan application. When funding is available, a pre-construction conference should be scheduled within 30 days of an eligibility determination and loan/grant approval. Attachment 12-F is utilized to document the pre-construction conference. If funding is not available send Handbook Letter 3 (3550), Waiting Period, to the applicant. The waiting period can be estimated using an average of the previous two year allocations.

Section 504 applications requesting assistance to remove health or safety hazards should receive priority processing. Veteran’s preference described in Paragraph 3.13 C. should be used in cases where multiple applications with the same priority preference are received on the same day. Complete applications will be processed in the order received using the following priority method:

First Priority: Health and safety hazards such as unsafe water, failed septic system, lack of heat, and those affected by natural disasters who are ineligible for other federal assistance. **Second Priority:** Removal of other health and safety hazards. **Third Priority:** Subsequent applications to an existing borrower. **Fourth Priority:** All other requests that do not meet the above criteria.

A property evaluation may be conducted utilizing online resources and photos to view the property and real estate tax assessments to determine the condition and value of the property. If the condition of the property cannot be determined using online resources, an on-site visit is documented with Attachment 12-D, Checklist for Evaluation of Existing Dwelling.

By submitting applications for a grant, applicants certify that they will not engage in the unlawful manufacture, distribution, dispensing, possession, or use of a controlled substance in conducting any activity with the grant

12.4 APPLICANT ELIGIBILITY [7 CFR 3550.103]

A. Income

In order to be eligible for a Section 504 loan or grant, the adjusted income at the time of loan/grant approval and at loan closing must not exceed the applicable very low-income limit. Low-income applicants cannot receive assistance under Section 504.

Medical deductions in excess of 3% of annual income should be closely examined and applied to elderly applications, as described in HB 1-3550, Paragraph 4.4 (g). Consider the following unreimbursed medical expenses; Medicare premiums, supplemental insurance, long-term care insurance, prescription drug coverage, pharmacy expenses, co-payments, eyewear, hearing aid / batteries, exams, dental expenses, including the greater of the actual travel costs for medical appointments or the published Internal Revenue Service mileage rate. You may not deduct funeral or burial expenses, nonprescription medicines, toothpaste, toiletries, cosmetics, a trip or program for the general improvement of your health, or most cosmetic surgery. Additional guidance on eligible medical expenses can be located on the [Internal Revenue Service](#) website.

B. Credit Requirements

Applicants receiving grant only funding do not need a credit history evaluation. An applicant with an outstanding judgment obtained by the United States in a Federal court, other than in the United States Tax Court, is not eligible for a Section 504 grant or 504 loan.

For loans, applicants must have a credit history that indicates a reasonable ability and willingness to meet debt obligations. Applicants with a credit score of 620 or higher, do not require Form RD 1944-61, Credit History Worksheet or further evaluation. These applicants are considered to have acceptable credit histories, with the exception for loan applicant(s) with a significant delinquency described in Paragraph 4.12 (a), or delinquency of a federal debt. For unsecured loans an infile credit score is considered reliable and there is no minimum trade line requirement. An applicant with a credit score less than 620 must demonstrate a history of reliable traditional or non-traditional credit using Form RD 1944-61, Credit History Worksheet to conduct the credit analysis.

Paragraph 12.4 Applicant Eligibility [7 CFR 3550.103]

The indicators of unacceptable credit described in Exhibit 4-4 for Section 502 loans can be used to evaluate the applicant's credit history, however, general credit requirements may be less stringent than those for section 502 loans. Late payments for housing costs should not be considered as an indicator of unacceptable credit.

The Loan Originator will check Department of Treasury's Do Not Pay (DNP) portal, as described in Paragraph 4.11 for loan and grant requests. Infile credit reports will be required for applicant(s) receiving a 504 loan assistance. A Tri-Merge Credit Report (TMCR) is required for all applications for loans of \$7,500 or greater, but the cost of the report is not charged to the applicant.

C. Asset Requirements

Asset requirements are identical to those imposed by Section 502, except that only assets that can be converted to cash in 90 days or less are included in the calculation of non-retirement assets. Non-retirement assets in excess of \$15,000 (or \$20,000 for an elderly household) must be used to reduce the Section 504 request.

D. Repayment Ability

To qualify for a Section 504 loan, the applicant must have a reliable income source sufficient to allow repayment of the loan as supported by a budget. Effective October 1, 2017, a budget is defined by using a maximum Total Debt (TD) ratio of 46%. For applicants 62 years of age or older, the budget is determined by income-based eligibility and/or repayment ability, as demonstrated in Exhibit 12-1 "Eligibility". Non-taxable income **cannot** be "grossed up" by any percentage for the Section 504 Program.

E. Age and Income for Section 504 Grants

1. At least one applicant must be 62 or older for a household to qualify for a grant. There is no minimum grant award requirement. Grant eligibility is contingent upon meeting one of the following: 1) Income-Based Grant Assistance, 2. Lack of repayment ability, and 3) If the applicant has *exhausted all 504-loan potential*.
 - a) A qualified applicant with an adjusted household income not exceeding 30% of the area median income (AMI) limit will be considered income-based eligible for grant assistance up to the maximum allowable grant limit. An income-based grant recipient can also receive loan assistance provided they demonstrate adequate repayment ability. Banded income limits (1-4 person, and 5-8 person limits) are not used for grant determinations.

Paragraph 12.4 Applicant Eligibility [7 CFR 3550.103]

- b) Lack of repayment ability refers to qualified applicant(s) whose TD ratio exceeds 46%; therefore not able to repay a loan. Applicant(s) could qualify up to the maximum grant assistance for eligible grant purposes. The calculation of total debt is based on all applicants and/or parties to the note.
 - c) An applicant who has received maximum 504 loan assistance and has exhausted their loan options may qualify for up to the maximum grant assistance for eligible grant purposes.
2. A qualified applicant who meets the age restriction but does not qualify for income-based assistance (adjusted household income greater than 30% of AMI) will be evaluated to determine their repayment ability (TD ratio not exceeding 46%). If the applicant demonstrates repayment ability a 50/50 combination loan and grant will be calculated up to 46% TD ratio. To determine program type eligibility, the Loan Originator must use the following criteria:
- 1. Is the applicant or co-applicant 62 years of age or older?
 - a. Yes, proceed to step two.
 - b. No, determine the loan amount according to a TD ratio not to exceed 46%.
 - 2. Does the adjusted household income exceed 30% AMI?
 - a. No, if adjusted income does not exceed 30% AMI, the applicant(s) automatically qualify for income-based grant assistance.
 - b. Yes, if the adjusted household income exceeds 30% AMI, proceed to step three.
 - 3. Determine the applicant(s) existing TD ratio:
 - a. TD ratio exceeds 46%, the applicant(s) qualifies for grant only assistance.
 - b. TD ratio does not exceed 46%, the applicant(s) will qualify for a combination loan /grant, proceed to step four.
 - 4. Determine combination loan /grant amount taking the following into consideration:
 - a. The minimum initial loan amount is \$1,000.
 - b. Combination loan / grant will have equal loan and grant amounts with a TD ratio not to exceed 46%.*
 - c. The maximum grant may not exceed the lifetime \$7,500 limit.



*Certain circumstances will result in unequal combination loan / grant amounts (e.g. applicants requesting less than \$2,000 or greater than \$15,000).

Exhibit 12-1 Program Type Eligibility			
Adjusted Household Income	Age	TD Ratio	Eligible Amount
Up to 30% AMI	62 or	n/a	Grant up to \$7,500 Limit
Greater than 30% AMI	62 or	Exceeds 46%	Grant up to \$7,500 Limit
Greater than 30% AMI	62 or older	< 46%	Loan/Grant Combination for equal amounts (minimum \$1,000 loan; maximum \$7,500 grant)
Any very-low income AMI	Any	Less than 46%	Maximum \$20,000 Loan

Example 1 - Maddie is 82 years old with an adjusted household income equal to 38% of AMI and a TD ratio of 41%. She requested \$7,500 in repair assistance for eligible loan or grant purposes. Her income exceeds 30% AMI and shows adequate repayment for Loan/Grant Combination. She is eligible for a 50% Loan/Grant Combination, \$3,750 loan and \$3,750 grant.

Example 2 - Rowdy is 72 years old with an adjusted household income equal to 49% of AMI and a TD ratio of 39%. He is applying for \$1,500 in repair assistance for eligible loan or grant purposes. His income exceeds 30% AMI and shows adequate repayment for a Loan/Grant Combination. He is eligible for 50% Loan/Grant Combination; however, he must meet the \$1,000 minimum loan requirement for initial loans. Rowdy is eligible for a \$1,000 loan and \$500 grant.

Example 3 - Mary is 62 years old with an adjusted household income equal to 31% of AMI and a TD ratio of 25%. She is applying for \$22,000 in repair assistance for eligible loan or grant purposes. Her income exceeds 30% AMI and shows adequate repayment for a 50% Loan/Grant Combination. She is eligible for a \$14,500 loan and \$7,500 grant.

F. Ownership of Property [7 CFR 3550.107]

The applicant must own and occupy the property to be eligible for Section 504 funds, and must be able to document ownership, as described in Paragraph 5.11, with 3 exceptions.

First, the time restrictions for leasehold interests are different. In general, Section 502 loans must have a leasehold interest with an unexpired term that is at least 150 percent of the term of the mortgage. For Section 504 loans, the property must be covered by a lease with an unexpired portion of not less than 2 years beyond the term of the promissory note, and for grants, the remaining lease period must be at least 5 years.

Second, a land purchase contract is acceptable if the applicant is current on all payments and has the ability to remain current.

Third, if standard evidence of ownership, as described in Paragraph 5.11, is not available, Section 504 loan/grant applicants may demonstrate ownership by presenting any of the following:

- Records of the local taxing authority that show the applicant as owner and that demonstrate that real estate taxes for the property are paid by the applicant;
- Affidavits by others in the community stating that the applicant has occupied the property as the apparent owner for a period of at least 10 years, and is generally believed to be the owner; or
- Any instrument, whether or not recorded, that is commonly considered evidence of ownership, such as a deed or mortgage.

12.5 PROPERTY ELIGIBILITY

A. Property Requirements [7 CFR 3550.106(a)]

To be eligible for Section 504 funds, the property must be owner occupied and the applicant's sole and primary residence. The property must be considered typical and modest for the area and must not be used for rental or other income producing purposes. However, Section 504 loan or grant funds may be used to improve a home on a property that has income-producing land or a small business, as long as the loan or grant is only used to improve the applicant's residence.

The property must be deemed a single family housing residential unit. The agency will not use 504 program funds to improve multi-family housing, or accessory dwelling units. An accessory dwelling unit is a single family housing dwelling with an attached or detached living quarters that operates independent of the primary unit located on the same site.

Paragraph 12.5 Property Eligibility

A modest dwelling may not have an estimated or appraised value in excess of the applicable area loan limit or an in-ground swimming pool, unless waived by the State Director. Waivers will be documented in the recipient’s electronic customer file or case folder and reported to the Director, Single Family Housing Direct Loan Division for informational purposes.

B. Determining Property Value [7 CFR 3550.111]

The Loan Approval Official will determine whether an appraisal is needed to assure adequate security exists for the proposed loan. Section 504 applicants are required to pay an appraisal fee if an appraisal is deemed necessary. The cost of the appraisal fee is described in Paragraph 5.22 and may be included in the 504 loan amount.



If an appraisal is not required, the value and the method used to develop the estimate should be documented in the running record. Utilization of tax assessments, and real estate websites such as Zillow.com, Trulia.com and Realtor.com may be considered as a tool to estimate the value of security. Appraisals are required when issuing an adverse action based on inadequate value of security.

C. Construction Standards [7 CFR 3550.106(c)]

Dwellings repaired with Section 504 loan or grant funds must remain modest and all work must be completed in accordance with local codes and standards. They need not be brought to Agency development standards, nor must all of the existing hazards be removed, provided the property does not continue to have major health or safety hazards after the planned repairs are made. Refer to Section 6, Chapter 5 for all construction management information.

D. Environmental Requirements

Section 504 loans and grants are subject to the same environmental requirements as Section 502 loans, as described in Section 3 of Chapter 5.

12.6 INTEREST RATE AND LOAN TERM [7 CFR 3550.113]

Section 504 loans have an interest rate of 1 percent and a term of 20 years. Section 504 loans are amortized on a monthly basis. Annual payment terms are not permitted.

12.7 MAXIMUM LOAN AND GRANT AMOUNTS [7 CFR 3550.112]

A. Maximum and Minimum Loan Amount

Loan and grant amounts should be rounded to the nearest whole dollar. The maximum and minimum loan that an individual applicant may receive is limited by the four (4) factors discussed below:

- **Outstanding loan amount.** The sum of the outstanding balance on all Section 504 loans may not exceed \$20,000 without an exception from the Deputy Administrator, Single Family Housing.
- **Minimum Loan Amount.** A minimum loan amount of \$1,000 is required for all initial borrowers.
- **Repayment ability.** The applicant receiving a loan must demonstrate repayment ability based on an analysis of the applicant's TD ratio not to exceed 46%. Please refer to Paragraph 4.22 (B) (2) Establishing TD, for guidance regarding calculating total debt. Compensating factors may be approved by the Loan Approval Official and exceed the TD ratio described in Paragraph 4.24A without approval by a next level supervisor.
- **Eligible costs.** The applicant can only receive loan funds to cover eligible costs. For example, if the applicant has only \$5,000 of eligible repairs to make, the maximum loan allowed is \$5,000.

B. Grant Limits

Grant amounts should be rounded to the nearest dollar. Grant funds are limited by three (3) factors:

- **Ability to repay a loan.** A grant cannot be awarded unless the maximum level of loans, as supported by a repayment calculation not to exceed of 46% TD ratio, or is awarded in combination with a loan for an applicant age 62 or older.
- **Grant Award Limitation.** The grant award is subject to the applicant's adjusted household income and median household income ratio.
- **Lifetime maximum.** The lifetime grant assistance to any applicant cannot exceed a cumulative total of \$7,500.

12.8 LOAN APPROVAL AND CLOSING [7 CFR 3550.108]

A. Loan Approval

Notifications of secured loan approval utilize Form RD 3550-7, Funding Commitment and Notification of Loan Closing. Notifications of unsecured loan approval or denial of credit should be handled with use of Handbook Letter 12 (3550), Notification of Approval, and Handbook Letter 15 (3550), Standardized Adverse Decision Letter, respectively. Preparation of all forms needed to close the loan should be handled in accordance with Chapter 8.

B. Security Requirements

If the total Section 504 loan indebtedness is \$7,500 or more, it must be secured by a mortgage on the property. The Agency does not require first lien position, but the total of all debts secured by the property must not exceed the property's market value, except by the amount of any required contributions to an escrow account for taxes and insurance and the tax service fee.

Paragraph 12.8 Loan Approval and Closing [7 CFR 3550.108]

C. Loan Closing

Loans less than \$7,500 may be closed by the Loan Originator or designee. Loans of \$7,500 and greater must be closed by a closing agent and are subject to the disclosures requirements under the Truth in Lending Act and Real Estate Settlement Procedures Act Integrated Mortgage Disclosures (TRID). The process for selecting a closing agent is the same as for a Section 502 loan and is detailed in Paragraph 8.4.

12.9 GRANT APPROVAL AND DISBURSEMENT

A. Grant Approval

Grant recipients should be notified by sending Handbook Letter 12(3550), Notification of Approval (504 Grant and/or Loan).

B. Grant Repayment Agreements [7 CFR 3550.114]

Before any grant funds are disbursed, the recipient must sign Form RD 3550-24, Grant Agreement. The agreement states that if a home repaired with a Section 504 grant is sold within three (3) years of signing the grant agreement, the full amount of the grant must be repaid. In the case of a life estate interest or an undivided ownership interest, as described in Paragraph 5.11, all co-owners living or planning to live in the household must sign Form RD 3550-24. The original Form RD 3550-24 should be filed with the promissory notes in a locked cabinet with a copy to the recipient’s electronic customer file or case folder, and a copy provided to the recipient. Exhibit 12-2 illustrates owner and co-owner income, assets and signatures required for secured loans and unsecured loans or grants.

Exhibit 12-2				
	Applicant Co-Applicant	Co-Owner Resident	Co-Owner Non-Resident	Other Household Members
Verify Income	Yes	Yes	No	Yes
Verify Assets	Yes	Yes	No	Yes
Repayment Agreement	Yes	Yes	No	No
Security Instrument	Yes	Yes	Yes or No*	No

*Undivided interests, life estates and other jointly held property not exceeding 50 percent of ownership, may be excluded by the State Director if permitted by State law for secured loans. See Paragraph 5.11.



C. Documentation of Grants

In order to ensure that applicants do not receive more than the maximum allowable grant assistance of \$7,500, the Loan Originator must document the amount of any prior grant provided to each grantee. Since 1998, grant records have been maintained in MortgageServ. A list of grants closed prior to 1998 will be retained in the operational file folder 3550-C "Section 504 Grantee List." When processing grant applications for individuals born prior to 1936, both MortgageServ and the operational file folder will be checked to document if prior assistance was received. For all other grant applications, a MortgageServ check is sufficient.

12.10 ESCROW, TAXES, AND INSURANCE [7 CFR 3550.109, 7 CFR 3550.110]

If the total outstanding indebtedness is more than \$15,000, Section 504 borrowers are responsible for furnishing and maintaining hazard insurance, as described in Section 3 of Chapter 7. If funds are not escrowed through another lender to pay for taxes and insurance, the borrower must contribute the appropriate amount to an escrow account managed by the Agency. Escrow is also not required where the security property includes a farm and the property is not subdivided between the farm and non-farm tract unless the housing represents the majority of the value of the security property or it is in the Agency's best interest. Flood insurance is required in Special Flood Hazard Areas (SFHA) throughout the term of a loan, except for loans with an original principal balance of \$5,000 or less. For grants of more than \$5,000, flood insurance is required when the grant is approved, unless grant funds will be used to obtain the insurance.

12.11 MANAGING REPAIRS AND MINORREHABILITATION

This section generally refers to work being done which is less complex than new dwelling construction such as subsequent loans, and unsecured Section 504 loans and grants. Typically, the repairs, improvements, or minor rehabilitation (work) discussed within this section would be able to be completed within 30 days of it commencing.

A. Communicating the Standards

The applicant needs to be aware of the standards the local jurisdiction has in place for repairs or improvements to their home before the design or bid process progresses.

Contractors should be provided with a scope of work by the applicant to ensure that the repair estimates for labor and materials are consistent with the homeowners' expectations. If application fees and permits are required, the scope of work will identify the party responsible for submitting the permit fees and approval from the local jurisdiction.

B. Selecting the Contractor

While a list of approved contractors should not be maintained, the Agency may provide applicants with sound advice on selecting a contractor (e.g. encouraging competitive bids, checking references, Better Business Bureau, etc.). The Loan Originator should discuss any concerns from their initial review with the homeowner in order to assist with their decision on selecting their contractor(s) to make the repairs, or improvements to their dwelling. The Loan Originator should document in the running record which contractor(s) the homeowner selected.

The contractor must have a valid contractor's license if required by the local jurisdiction, and such license must be documented by the Loan Originator. In many cases, the applicant will have a contractor in mind. Detailed specifications are not required however; the contractor's bid should include a breakdown of materials and labor and describe the quantity, quality, grades, styles, model numbers, etc. to identify the work and materials to be furnished.

The applicant will provide an adequate number of bid(s) from a qualified contractor(s). The local office must review the bid(s) obtained to ensure costs are reasonable for the area serviced and the number of bid(s) are sufficient. The bid(s) must be detailed to include cost of material, size, quantity and manufacturer. Refer to Paragraph 5.26 for guidance and requirements on minor rehabilitation.

C. Pre-Construction Conference

Once the funding has been obligated, the Agency, the applicant(s), and the contractor(s) are required to hold a pre-construction conference using Attachment 12-F, Pre-Construction Conference prior to work commencing. The purpose of the conference is to ensure that each party understands their respective roles and responsibilities. The parties should review the contract or accepted contractors bid/proposal, start date, estimated completion date, requirements and specifications to ensure all parties understand the scope of work, construction/thermal standards, environmental mitigation requirements, fees, materials, inspection requirements, change orders, responsibilities for access, cleanup, and payment procedures.

D. Construction Contract




Written contracts using Form RD 1924-6, "Construction Contract" are strongly recommended for all rehabilitation-related construction and are required if the construction work will affect the dwelling's structural integrity (widening doorways, removing walls, foundation work, termite/water damage, etc.). A contract or bid not exceeding \$10,000 may use, Form RD 1924-6, "Construction Contract" however; but it is not required. Contractors commonly have bid acceptance language at the bottom of their bid proposals, regardless the homeowner's signature is required as it binds the agreement (contract). The applicant and contractor must sign the contract(s) or bid/proposal no later than at the pre-construction conference. If there are multiple contracts or bids, Form RD 1924-1, Development Plan with cost estimates and bid specifications must be used. Separate contracts and arrangements which split responsibility of contractors (multiple small contracts at the same time), should be avoided whenever it is practical to do so.

12.12 COMMENCEMENT OF WORK

Once the contract or bid has been accepted and/or signed, the pre-construction conference has been held, the work may begin. Generally, the complexity of most repairs and minor rehabilitation will not require periodic inspections by Agency staff. The homeowner and contractor should communicate with Agency staff any unforeseen issues that arise which could increase costs or jeopardize timely completion.

A. Inspecting the Work

The homeowner will be responsible for making inspections necessary to protect their interest. Agency inspections, or acceptable alternatives are to ensure the funds were used for the completion of the improvements, minor rehabilitation, or repairs as outlined without implication of duty or obligation to the homeowner. The inspection(s) may be conducted on-site by Agency Staff utilizing Form RD 1924-12, Inspection Report, or by alternative methods such as photos, videos, and written reports provided to the Loan Originator 

Qualified third-party inspectors may be used when on-site inspections or alternative methods are not feasible. The cost for these services may also be reimbursed to the homeowner with loan or grant funds. Because of additional costs to the homeowner, payment for qualified third-party inspectors is not the preferred method. If inspections are conducted by a third party, the inspector should submit periodic inspection reports to the Agency.

B. Payment Upon Completion

1. Payment Options

Before the Loan Originator initiates payment, they must ensure that the homeowner is satisfied with the work completed. The homeowners acceptance of work completed must be documented on Form RD 1924-9, Certificate of Contractors Release prior to issuance of payment. The number and timing of inspections varies by the type and extent of work performed.

Once work has commenced, there are two payment options. The first and preferred method is lump sum payment upon completion of work. The second is multiple advances for work in place in accordance with HB 1-3550, Paragraph 5.26 C. Multiple advances are used to pay the contractor for work completed and calculated not to exceed 60% of the value of work in place for that portion of the contract (i.e.; contract \$10,000, 25% of work completed, calculated as: $0.25 \times \$10,000 \times 0.60 = \$1,500$ payment). When payment is made to multiple contracts, advances can be performed in lump sum to pay each contractor for work in place.

C. Required Forms

The Loan Originator determines acceptability of documentation submitted showing completion of repairs and documents running record accordingly.

Paragraph 12.12 Commencement of Work

1. **For unsecured loans and grants the following documents should be submitted prior to final payment.:**
 - Form RD 1924-9, Certificate of Contractor's Release including an applicant/owner signature(s) confirming their acceptance of the work.
 - Photos of the completed work as provided by the owner or contractor,
 - A copy of a third-party inspection (if applicable).
2. **For secured loans Loan Originator must receive the following documentation prior to final payment:**
 - Form RD 1924-9, Certificate of Contractor's Release including an applicant/owner signature(s) confirming their acceptance of the work
 - Form RD 1924-10, Release by Claimants, or similar
 - Form RD 1924-19, Builder's Warranty, or similar
 - Form RD 1924-12, Inspection Report, or a copy of a third-party inspection (if applicable) or photos of the completed work as provided by the owner or contractor.

D.Borrower Method [RD Instruction 1924-A, 1924.6 (b)]

Borrower method can be used when the construction method is not feasible, and the borrower demonstrates the capacity and experience to oversee the construction process. This method increases risk for the agency and provides the least amount of coverage to the borrower. If this method is utilized, the total development of rehabilitation and repairs cannot exceed \$5,000. A detailed estimate of labor and materials should be obtained in writing, with the exception for amounts less than \$100. The Agency has two payment options:

- Checks can be made payable directly to the laborers and the seller for equipment and materials furnished, or
- Checks can be issued to the owner, if the owner has paid for labor/material out of pocket and obtained all the signatures of the workers who performed labor on Form RD 1924-11, "Statement of Labor Performed".

The following documentation should be completed prior to final payment:

- Form RD 1924-1, Development Plan,
- Form RD 1924-11, Statement of Labor Performed for each worker involved in performing borrower method paid labor,
- Itemized invoice from the contractor to include all equipment and materials furnished,
- Homeowners' written acceptance of the completed work,
- Photos of the completed work provided by the owner.

12.13 CLOSEOUT PROCESS

Once work is satisfactorily completed, the Agency will release the final payment to the homeowner and their contractor. The homeowner is party to the contract and therefore responsible to pay their contractor. Before payment occurs, the Loan Originator ensures that the work has been accepted by the homeowner. If construction or rehabilitation work cannot be completed because the contractor is unable or unwilling to do so, (even with the Agency's assistance), loan funds will be applied to reduce the borrower's principal balance. Grant funds will be returned to the NFAOC.

If the homeowner refuses to pay the contractor due to a dispute or unsatisfactory workmanship, the Agency or a third-party inspector will perform an on-site inspection. The undisbursed funds will be processed in the following manner:

- If litigation is pending, the Agency will consult with the Office of the General Counsel prior to disbursing or returning funds.
- If litigation is not pending, the Agency will return remaining funds to be applied to the borrower's loan or grant amount. Once funds have been disbursed or returned, loans must be converted to permanent accounts on the first of the following month. The homeowner should also be advised of their contractual obligations, and may wish to seek their own legal counsel.

A. Funds Remaining After Completion [RD Instruction 1951-A, 1951.11(b)(3)]

Funds remaining after completion of construction and disbursement payment to the contractor, may either be returned as unused funds or used toward an eligible repair. Loan funds returned will be curtailed to principal. However; if a borrower received a combination loan and grant, the remaining funds will first be returned to reduce the grant amount. A notice informing the borrower of their right to appeal must be issued within 10 days of the determination to return unused funds. The remaining funds must be returned within 90 days.

Example - Joe Smith receives \$6,000 in combination loan and grant assistance (\$2,000 loan and \$4,000 grant funds). The repairs are completed and invoiced at only \$4,000, less than the original contract price. The remaining \$2,000 will be returned as unused funds to reduce the grant (not the loan).

B. Disbursement [DLOS Manual Chapter 8]

Loans and grants can be disbursed utilizing either multiple draws or single check disbursement (lump-sum payment). For larger or long-term construction/rehabilitation projects (exceeding 30 days) a supervised bank account may be necessary for multiple disbursements.

When ordering multiple draws for loan-grant combinations, additional draws on the grant portion cannot be performed once the loan has been fully disbursed. To order multiple draws, the purpose code on the registration screen in Unifi must be coded 40 (construction loan). This code will transfer to the new loan screen in MortgageServ which should reflect a close code of "5" and verified during loan closing.

Paragraph 12.13 Closeout Process

C. Cancellation of Funds

Partial or full cancellation of loan and grant funds can be performed in accordance with DLOS Manual Chapter 8. If a Treasury Check is held by the Agency, it must be voided and returned to NFAOC with form RD 3550-17, "Funds Transmittal Report". The following reason codes may be used on the Funds Transmittal Report:

- 05 Cancellation of Treasury Funds (loan or grant)
- 20 Principal Curtailment

ATTACHMENT 12-A
SUMMARY OF DIFFERENCES BETWEEN
SECTION 504 LOANS AND GRANTS

Note: This attachment summarizes key requirements to assist the reader in comparing Section 504 loans and grants. It is not a comprehensive description of all requirements.

Topic	Section 504 Loan	Section 504 Grant
Use of Funds	May be used to: (1) improve or modernize; (2) make dwelling decent, safe, and sanitary; (3) remove hazards. Cannot be used for acquisition or new construction. Specific prohibitions are listed in Paragraph 12.2 A.	May be used only to remove health and safety hazards or to make dwelling accessible to household member with disabilities.
Drug-Free Workplace	N/A	Applicants must certify that they will not engage in the unlawful manufacture, distribution, dispensing, possession, or use of a controlled substance in conducting any activity with the grant.
Credit Reports	Required for all applicants with adjusted income exceeding 30% AMI but no fee charged.	N/A
Age of Applicant	N/A	62 or older
Leaseholds	The property must be covered by a lease with an unexpired portion of not less than 2 years beyond the term of the promissory note.	The remaining lease period must be at least 5 years.
Appraisals	Fee charged if appraisal completed.	N/A
Maximum Assistance	\$20,000 outstanding at one time.	\$7,500 lifetime limit.
Security	If Section 504 loan is >or equal to \$7,500, a mortgage is required.	No security required.
Insurance	If indebtedness >\$15,000, property insurance is required. Flood insurance is required in Special Flood Hazard Areas (SFHA) > \$5,000.	Flood insurance is required in SFHA at grant approval for grants of >\$5,000.

ATTACHMENT 12-B
DIFFERENCES BETWEEN SECTION 502 AND SECTION 504 LOANS

Note: This attachment summarizes key requirements to assist the reader in comparing Section 502 and 504 loans. It is not a comprehensive description of all requirements.

Topic	Section 502 Loan	Section 504 Loan
PROGRAM PURPOSES AND PRIORITIES		
Program Purpose	Assist applicants who are not homeowners to become homeowners.	Assist current homeowners with necessary improvements and repairs.
Processing Priorities	Multiple priorities may apply. Applications that meet special criteria are processed immediately upon funding availability.	Multiple priorities apply, but applications for assistance to remove health and safety hazards receive first priority processing. Veteran's preference is used for applications with the equivalent priority status received on the same day.
LOAN PURPOSES		
Eligible Purposes	In general, funds may be used to buy, build, rehabilitate, improve, or relocate an eligible dwelling and provide related facilities for the borrower to personally occupy. No initial loans for repair of manufactured homes.	Remove health and safety hazards. Repair or remodel dwelling to make more accessible and useable for a household member with a disability. General repairs to improve or modernize a home. Repair mobile or manufactured homes with a permanent foundation.
APPLICANT ELIGIBILITY		
Income	Applicant income must not exceed low-income limit at loan approval and must not exceed moderate-income limit at loan closing.	Applicant income must not exceed the very low-income limit at loan approval and closing.

Topic	Section 502 Loan	Section 504 Loan
APPLICANT ELIGIBILITY		
Credit Requirements	Credit history must demonstrate ability and willingness to pay. Costs for credit reports are charged to applicant.	Applicants must have a credit history that indicates a reasonable ability and willingness to meet debt obligations. Costs for credit reports are not charged to the applicant.
Asset Requirements	Applicants are required to contribute nonretirement assets exceeding \$15,000 (\$20,000 for elderly households) toward the purchase of the property.	Same as Section 502, except nonretirement assets include only assets that can be converted to cash within <u>90 days</u> .
Repayment Ability	Applicants must show repayment ability based on PITI and TD ratios.	Applicants must show repayment ability based on a TD ratio of 46% or less.
Ownership	The applicant need not own the property. A leasehold must have an unexpired term of at least 150% of the term of the mortgage, unless the loan is guaranteed by a public authority, Indian tribe, or Indian Housing Authority. No exceptions on ownership evidence.	The applicant must own the property. A leasehold must have an unexpired term of at least 2 years beyond the loan term. If standard evidence of ownership is unavailable, exceptions may be made.

Topic	Section 502 Loan	Section 504 Loan
PROPERTY REQUIREMENTS		
Area Loan Limit	Individual exceptions are allowed.	Individual exceptions are allowed.
Property Standards	The property must meet the Agency's site and dwelling standards.	The property: (1) need not be brought to Agency development standards; (2) need not have all hazards removed; but (3) must have all major hazards removed.
Appraisals	An appraisal is required when the debt is to be secured and prior liens exceed \$15,000. Applicants are required to pay an appraisal fee which may be included in the loan.	The Loan Official determines when an appraisal is needed. Applicants are required to pay an appraisal fee which may be included in the loan.
LOAN TERMS		
Interest Rate and Loan Terms	The applicable Rural Housing (RH) Section 502 low or moderate interest rate in effect at loan approval or closing, whichever is lower. Standard term is 33 years; some applicants may qualify for a 38 year term. Borrowers may be eligible for payment subsidies that reduce the effective interest rate.	1 percent interest rate and a standard loan term of 20 years.
Loan Amount	Total secured indebtedness must not exceed the area loan limit or the market value by more than 5 percent	Total secured indebtedness must not exceed the area loan limit or the market value limitation. The outstanding balance on the sum of all Section 504 loans cannot exceed \$20,000.

Topic	Section 502 Loan	Section 504 Loan
LOAN APPROVAL AND CLOSING		
Loan Closing	Loans must be closed by a closing agent.	Unsecured loans less than \$7,500 may be closed by the Loan Originator or a designee.
Security	First liens are generally required, but Agency interests may be subordinated in some circumstances.	First lien position is not required.
INSURANCE		
Insurance Requirements	If indebtedness is greater than \$15,000, property insurance is required.	If indebtedness is greater than \$15,000, property insurance is required.

504 SINGLE FAMILY HOUSING LOAN AND GRANT CHECKLIST

“THIS CHECKLIST DOES NOT REPLACE THE RUNNING RECORD!”
(This document should be filed in position 1)

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

Review application for completeness within 3 business days of receipt. Call or write the applicant to request any missing information. Follow up with a letter advising applicant of a 15-day deadline for submission or the application will be withdrawn, or a 30-day deadline to obtain repair bid(s). Mark files as inactive until complete. (HB-1, 3.6)

POS **DATE**

APPLICATION PROCESSING

- 3 _____ **RD 410-4, Uniform Residential Loan Application**, include information sheet similar to Attachment 3-D and **RD 3550-1, Authorization to Release Information (HB-1, 3.5)**
- 3 _____ **Infile Credit Report (HB-1, 3.3, 4.11)**
- _____ **If a secured loan application is subject to TRID, forward the following documents as applicable to the applicant within 3 business days of receipt of the application (HB-1, 3.8):**
 - _____ **CFPB’s “Your home loan toolkit: A step-by-step guide”**
 - 2 _____ **CFPB’s Loan Estimate form**
 - 2 _____ **Attachment 3-I, Settlement Service Providers List & Mortgage App. Related Disclosures**
- 2 _____ **For an unsecured loan, send RD 1940-41, Truth in Lending Statement. Date Returned: _____**
- 3 _____ **Check Treasury’s DNP portal, and file in applicant file (HB-1, 4.11, 12.4B)**
- 3 _____ **Check MortgageServ’s “SSN CROSS REFERENCE” softlink key (HB-1, 4.11, 12.9C)**
- 3 _____ **Check list for 504 Grant recipients born prior to 1936 for prior assistance (\$7,500 lifetime limit) and document in running record (HB-1, 12.9C)**
- 3 _____ **Identification and Verification of age (grants only) (HB-1, 4.21)**
 - _____ **Evidence of age** _____ **Taxpayer’s ID number** _____ **Photo ID**
- 5 _____ **Evidence of homeownership and occupancy: (copy of Deed, RE Tax Bill, etc.) (HB-1 12.4F)**
- 6 _____ **Verify eligibility of subject property. (HB-1, 5.1)**
_____ <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>
- 3 _____ **Enter application complete date in stage updating of UniFi and on Form RD 410-4**
- 4 _____ **Funds Available; send HB Letter 11, Request Information (HB-1, 3.13)**
- 4 _____ **Funds Not Available; send HB Letter 2, Funds Not Available (HB-1, 3.12)**

POS DATE **ELIGIBILITY PROCESSING**

3 _____ **Document repayment ability**, TD ratio does not exceed 46% without documented compensating factors (HB-1, 12.7).

INCOME

3 _____ **RD 1910-5, Request for Verification of Employment** – if paystubs are not available (HB-1, 4.3):
_____ If no response in 14 days, call employer to follow up and document the discussion

3 _____ **Other Income/Asset documentation (HB-1, 4.3, 4.5):**
_____ Public Assistance _____ Self-employment income
_____ Child Support/Alimony _____ Social Security/VA Benefits
_____ Unemployment Benefits _____ Pensions/Annuities
_____ Latest two Federal Income Taxes with W-2s and applicable schedules

_____ **RD 3550-4, Employment and Asset Certification** _____ Other
_____ Two (2) most recent asset statements (bank accounts, retirement funds, etc.)
3 _____ **Automated Worksheet for Computing Income and 504 Eligibility**

DEDUCTIONS

3 _____ **Deduction documentation (HB-1, 4.4):**
_____ Child Care _____ Educational Assistance Expenses
_____ Elderly/Disabled (RD 1944-4, if applicable) _____ Full-time Student status
_____ Medical Expenses _____ Minor Dependent
_____ Other

3 _____ **Separation/Divorce/Paternity/Property Settlement Agreement**, if applicable

CREDIT

3 _____ **Tri-Merge Credit Report (TMCR) documentation** (Only loans \$7,500 or greater)
[no grants] – no charge to the applicant) (HB-1, 4.12 & 12.4):
_____ Report: Requested _____ Received _____
_____ Document in item 19 of RD 410-4
_____ Credit Scores: Applicant _____ Co-Applicant _____

3 _____ **Credit score is less than 620 (HB-1, 12.4B):**
_____ Applicant Reference Letter (RD 410-8)
_____ Credit History Worksheet (1944-61)

OTHER

3 _____ **RD 3550-2, Request for Verification of Gift/Gift Letter**, if applicable - (HB-1, 4.3 & 6.15)

3 _____ **Document applicant lacks personal resources and meets non-retirement asset limitations**
(\$15,000; \$20,000 for elderly households) (HB-1, 4.6, 6.10, and 12.4C)

3 _____ **Citizenship status** (if not a citizen, see HB-1-3550, Attachment 4-D (S.A.V.E.) (HB-1. 4.20)

3 _____ **Document Eligibility on originally submitted Application - item 17.** Update UniFi/Stage
Updating

2 _____ **RD 3550-23, Applicant Orientation Guide (HB-1, 4.26 loans only)**

2 _____ If changed circumstances occur, issue revised Loan Estimate within 3 business days of receiving new information, but no later than 4 business days prior to loan consummation.

POS DATE **PROPERTY ELIGIBILITY**

- 3 _____ **Property eligibility determination** (document with Automated Worksheet for Computing Income and 504 Eligibility) (HB-1, 12.3) **Method used:** (site visit, online resources) _____
- 6 _____ **Verify the subject property’s address using the USDA address verification site. Result code must be 1 or 2; or researched, verified, and documented if not. Enter verified address in UniFi.** (HB-1, 5.1) (<http://eligibility.sc.egov.usda.gov/eligibility/addressVerification>)
- 6 _____ **Checklist for Evaluation of Existing Dwelling** (HB-1, 12.3, Attachment 12-D), if applicable.
- 6 _____ **Photographs of property and essential repairs** (before and after). (HB-1, 12.12)
- 8 _____ **Appraisal Report, or document Statement of Value** (HB-1, 12.5B)
- 8 _____ **RD 1922-15, Administrative Appraisal Review for Single Family Housing** - within 7 days of appraisal (HB-1, 5.21); **Reviewed and Accepted** _____ (initial and date)
- 6 _____ **Lead Based Paint (LBP) Compliance Key and Print Out** (houses built prior to 1978) (<http://leadpaint.sc.egov.usda.gov/LBPWeb/index.html>)
- 3 _____ **RD Instruction 1970-B, Exhibit D, “Environmental Checklist for Categorical Exclusions”** (1970-B & HB-1, 5.8)
- 3 _____ **FEMA’s Standard Flood Hazard Determination Form** (HB-1, 5.8 & 1970-F) (<https://www.floodcert.com>)
- 3 _____ **FEMA’s Elevation Certificate Form**, (HB-1, 5.8 & 1970-F), if substantial rehabilitation (<https://www.fema.gov/media-library/assets/documents/160>)
- 3 _____ **Private Party Notice Regarding Flood Hazards**, as applicable (HB-1, 5.8 & 1970-F)
- 3 _____ **RD 3550-6, Notice of Special Flood Hazards, Flood Insurance Purchase Requirements, and Availability of Federal Disaster Relief Assistance**, as applicable (mail 10 days prior to closing) (HB-1, 5.8)

POS DATE **CONSTRUCTION**

- 5 _____ **Check contractor(s) in the DNP portal and place a copy in applicant’s file**
- 6 _____ **Attachment 12-F. Pre-Construction Conference** (HB-1, 12.3)
- 6 _____ **RD 1924-7, Contract Change Order**, if applicable

CONTRACTS \$10,000 OR LESS

- 7 _____ **Review detailed bid(s) from contractor(s) itemized costs to include labor and materials** (HB-1, 5.25) or use 1924-6, **Construction Contract** and RD 1924-7, **Contract Change Order**, if applicable
- 6 _____ **RD 1924-1, Development Plan**
- 6 _____ **RD 1924-9, Certificate of Contractor’s Release**
- 6 _____ **RD 1924-10, Release by Claimants if subcontractors are used**
- 6 _____ **Pictures of repairs before and after**

CONTRACTS > \$10,000

- 6 _____ **RD 1924-6, Construction Contract**
- 6 _____ **Ex C, RD Inst. 1901-E** (HB-1, 12.11) **DOL** within 10 days, **DOL** website (<https://www.dol.gov/ofccp/contacts/regkey.htm>)
- 6 _____ **“400 Series”** (400-1, 400-3, 400-6, posters) (HB-1, 5.25),
- 2 _____ **RD 402-1, Deposit Agreement and RD 402-2, Statement of Deposits and Withdrawals**, if applicable
- 6 _____ **RD 1924-12, Inspection Report** (HB-1, 12.12) if an on-site visit was necessary
- 6 _____ **RD 1924-9, Certificate of Contractor’s Release**
- 6 _____ **RD 1924-10, Release by Claimants**, if applicable
- 6 _____ **RD 1924-11, Statement of Labor Performed** (borrower method only)
- 6 _____ **RD 1924-19, Builder’s Warranty** (HB-1, 5.27), if construction contract used

POS DATE UNDERWRITING/APPROVAL

- 3 _____ **Reverify income** - if over 120 days old (**HB-1, 8.6**)
- 2 _____ **Verify UniFi Program Type Code** (must match income type) **Program Type Code:** _____
- 2 _____ **Update all screens in MortgageServ before uploading file; check Display History Screen for correct loan / grant amount.**
- 4 _____ **If rejected, use HB Letter 15 (3550), Standardized Adverse Decision Letter, and attach review & appeal rights (HB-1, 1.9 & 8.2)**
- 2 _____ **RD 3550-7, Funding Commitment and Notification of Loan Closing** – issued when **secured** loan funds are obligated in MortgageServ (if not accepted and returned in 15 days, deobligate) (**HB-1, 8.2**)
- 4 _____ **Handbook Letter 12 (3550), Notification of Approval** – issued when **unsecured** loan and/or grant funds are obligated in MortgageServ.
- 2 _____ **Obligate through MortgageServ (HB-1, 8.7).**

POS DATE CLOSING

- 5 _____ **RD 1927-4, Transmittal of Title Information (HB-1, 8.4)**
 - 5 _____ **Title Insurance required for loans \$7,500 or greater (HB-1, 8.4)**
 - 5 _____ **RD 1927-9, Preliminary Title Opinion** (loans \$7,500 or greater), as applicable (**HB-1, 8.4**)
 - 7 _____ **Hazard Insurance Binder & Receipt for 1st year premium** for loans \$15,000 or greater (**HB-1, 7.12**)
 - 7 _____ **Flood Insurance Binder & Receipt for 1st year premium** required for properties located in Special Flood Hazard Area (Loans and grants \$5,000 or greater)
 - 5 _____ **Review Title Insurance Binder/Preliminary Title Opinion and verify legal description is correct**
If exceptions noted affect the security value, loan cannot close (**HB-1, 8.5**)
 - 7 _____ **RD 3550-15, Tax Information** – loans \$15,000 or greater (**HB-1, 7.10**)
 - 5 _____ **RD 3550-9, Initial Escrow Account Disclosure Statement**, loans \$15,000 or greater (**HB-1, 7.5 & 12.10**)
 - 5 _____ **RD 3550-25, Loan Closing Instructions and Loan Closing Statement** – for loans \$7,500 or greater (should include documents to be signed at closing) (**HB-1, 8.11**)
 - 2 _____ **RD 3550-17, Funds Transmittal Report** for tax service & appraisal fees, escrow funds, etc. (copy in Collections Operational File) (**1951-B, if applicable**)
 - 5 _____ **RD 3550-19, Transmittal-Closing Documents & Attachments**, as applicable (Grant documents are not sent to NFAOC) (**HB-1, 8.11**)
 - 3 _____ **RD 410-4, Uniform Residential Loan Application - PRINTED FROM UniFi**
 - 3 _____ Check the contractor using Treasury’s DNP portal – print hard copies for file (**1940-M**)
 - 5 _____ **RD 1927-5 “Affidavit Regarding Work of Improvement”** (if required by State Supplement) send blank to closing (**1927-B, 1927.58**)
 - 2 _____ **RD 1940-16, Promissory Note** (original in safe) - all loans (**HB-1, 8.9**)
 - 5 _____ **Closing Disclosure (HB-1, 8.5)**, review for compliance with tolerance limits (**secured loans**)
-

<u>POS</u>	<u>DATE</u>	<u>CLOSING (CONTINUED)</u>
2	_____	RD 1940-41, Truth in Lending Statement – if applicable for an unsecured loan (HB-1, 3.8B)
2	_____	RD 1940-43, Notice of Right to Cancel - if secured loan (HB-1, 8.6)
5	_____	RD 3550-14, Real Estate Mortgage or Deed of Trust for (State) – (\$7,500 or greater – sent blank) (HB-1, 8.11)
5	_____	RD 1927-10, Final Title Opinion , if applicable
5	_____	RD 1927-8, Agreement with Prior Lienholder , if applicable (HB-1, 8.6)
2	_____	RD 3550-24, Grant Agreement (original in safe; copy in case file) (HB-1, 12.9)
5	_____	RD 3550-29, Document Errors and Omissions Agreement (HB-1, Attachment 8-A)

<u>POS</u>	<u>DATE</u>	<u>POST CLOSING</u>
5	_____	Verify closing documents faxed to NFAOC in required time frame (HB-1, 8.11) _____ Verify proper lien position. _____ Post 1 month follow-up for recorded Real Estate Mortgage. _____ Post follow-up for Title Insurance Policy (60 days) or Final Title Opinion (14 days). (If not received, contact Closing Agent by mail with a copy of the letter to the insurance company.)
2	_____	Activate loan (wait until the rescission period has expired, if applicable)
5	_____	Review final Loan Estimate & Closing Disclosure for tolerance violations. Cure violation within 60 days of closing.
5	_____	RD 3550-25 – Loan Approval Official approves after all forms are returned, reviewed, and correct (HB-1, 8.11 secured loans)
2	_____	Delinquent/Lienholder Screen – complete MortgageServ screen for each leveraged partner – Include forgivable loans from CDCs and Non-Profits

CHECKLIST FOR EVALUATION OF EXISTING DWELLING

Owner-Occupant Name _____

Property Address _____

Co-Owner Occupant Name _____

Account Number _____

Mark the appropriate box to indicate the condition of each element.

Yes	No	Health / Safety Hazard	Element
<input type="checkbox"/>	<input type="checkbox"/>		1. Entry, Exit, Walkway and Driveway. Porches, stairs, decks are sound and free of deterioration. Handrails are required for extended stairs generally four or more consecutive steps. Walkways, porches and decks pose no safety hazards and provides adequate accessibility for a household member with a disability, if applicable.
Comments:			
<input type="checkbox"/>	<input type="checkbox"/>		2. Exterior Walls. Exterior walls do not exhibit signs of structural fatigue, failure, or excessive bowing. The siding is free of any rot or paint that is loose, peeling, chipping, scaling, or cracking. Vinyl or aluminum siding is free of mildew. Brick or stone veneer is sound and exhibits no displacement.
Comments:			
<input type="checkbox"/>	<input type="checkbox"/>		3. Utilities. The property is connected to a water/septic system that is approvable by an appropriate public agency. The system is adequate for the size of the property and is performing satisfactorily. The dwelling has adequate, safe, dependable utilities with no evidence of malfunction.
Comments:			
<input type="checkbox"/>	<input type="checkbox"/>		4. Foundation. The foundation is structurally sound with no evidence of defects such as cracks, bowing or moisture intrusion. If a deficiency is noted, describe the nature of the deficiency and report necessary repairs, alterations or required inspections to alleviate the deficiency. Gutters, downspouts and grading are functioning adequately and provide proper drainage, if applicable.
Comments:			
<input type="checkbox"/>	<input type="checkbox"/>		5. Roof. The roof is satisfactory and free of serious defects such as buckling, sagging, holes, leaking and is expected to last a minimum of 2 years.
Comments:			

Yes	No	Health / Safety Hazard	Element
			6. Interior walls, framing and trim. Structurally sound and are exhibiting no signs of bowing, sagging, or deterioration.
Comments:			
			7. Windows. Windows are functional, adequate and energy efficient exhibiting no obvious signs of deterioration.
Comments:			
			8. Framing. Floor, subflooring, ceiling joists and partition framing are sound and exhibit no structural deficiencies.
Comments:			
			9. Floor covering. Structurally sound and without presence of cracks, holes, buckling, damage, heavily worn or soiled.
Comments:			
			10. Plumbing. Functionally adequate water pressure, flow and waste removal. Water heater and sump pump are functional. Plumbing fixtures exhibits no evidence of leaks, damage.
Comments:			
			11. Heating and Air Conditioning. Functionally adequate
Comments:			
			12. Electrical Wiring. Functionally adequate.
Comments:			

Additional Comments: _____

Reviewer Signature

Date

CHECKLIST OF ITEMS TO ACCOMPANY APPLICATION FOR HOME REPAIR LOAN OR GRANT FUNDS

Applicant Name: _____ Phone: _____ Cell: _____

Co-Applicant Name: _____ Phone: _____ Cell: _____

Applicant Email: _____ Co-Applicant Email: _____

Preferred contact? Mail: _____ Phone: _____ Cell: _____ Email: _____

Check the boxes below when completed

REQUIRED FORMS: Please submit the following documentation:

- Form 410-4, “Uniform Residential Loan Application” complete, sign and date pages 5 & 8.
- Form 3550-1 “Authorization to Release Information” for each adult household member.
- Form 3550-4, “Employment & Asset Certification” for each adult household member.

INCOME:

- Verification of **all household income**. To qualify for the program, a household’s adjusted income must be within the established income limit based on size and location. Below are some examples of income that may be applicable to all household members and what should be provided to the Agency.
 - Copies of the last four week’s consecutive pay stubs.
 - Copies of recent benefit statements for regular unearned income (such as social security, public assistance, retirement income, etc.).
 - Last 12 month payment history of alimony and/or child support received as provided by the court appointed entity responsible for handling payments. If this is not available, a copy of the separation agreement or divorce decree.
- For each applicant, a complete copy of their last two signed and filed Federal Income Tax Returns. IRS Form W-2, “Wage and Tax Statement,” and/or IRS Form 1099-MISC, “Miscellaneous Income”, must be attached. For returns mailed to the IRS, provide a copy of the signed document. For returns filed electronically, include a copy of the signature page with the Self-Select PIN, confirmation that the return was accepted, or evidence that it was filed by an authorized E-File provider.
- For each applicant, a signed IRS Form 4506-T, Request for Transcript of Tax Return
<https://www.irs.gov/pub/irs-pdf/f4506t.pdf>

- For each non-retired applicant, a written explanation of employment history of less than two years or employment gaps in excess of 30 days within the last two years.

ASSETS, CREDIT, OTHER DOCUMENTATION:

- For each applicant, a copy of their two most recent asset/bank statements. (Note that if you are obtaining this information through online banking, you should print your bank statement, as opposed to printing the online transaction history.)
- For each applicant, a written explanation for late payments, collections, judgments, or other derogatory items in their credit history of which they may be aware. If applicants are unsure what their credit history looks like, they can obtain a free credit report by calling 1-877-322-8228 or logging into <http://www.annualcreditreport.com>. By law, individuals are entitled to receive one free credit file disclosure every 12 months from each of the nationwide consumer credit reporting companies – Equifax, Experian and TransUnion. This free report cannot replace the credit report that the Agency will obtain to determine eligibility.
- For each applicant, verification of their identity. A copy of a Government-issued photo identification, evidence of date of birth (only required if not listed on the photo identification).
- For a household member who is a full-time student and 18 years of age or older, a copy of their school transcript.
- If applicable, provide written evidence of child care expenses for dependents 12 years of age or younger.
- If applicable, evidence of out of pocket annual medical expenses (for applicants 62 years of age and older, or individuals with a disability) who wish to be considered for a deduction to household income.

PROPERTY INFORMATION:

- Evidence of Ownership: Copy of Deed, or other documentation.
 - Tax Statement: Most recent property tax assessment and annual statement, if applicable.
 - Insurance: Evidence of homeowner's hazard or flood coverage, if applicable.
 - Repair Bid(s) including an itemized description of repairs, material, labor, and a copy of Contractor's license, if applicable.
 - Mortgage Statement: Most recent copy of mortgage statement, if applicable.
 - Photos of repair(s) and the front and back of property.
-

PRE-CONSTRUCTION CONFERENCE

Owner Name(s): _____ Contractor: _____

A Pre-Construction Conference was held () in person, () by telephone on _____
to review the contract/bid and/or specifications dated _____ for work to be completed and
performed at the property address, _____.

The Contractor will start work on _____, and will complete the work by _____.

- Although Rural Development (RD) is interested in the proper completion of the work, RD is not and will not become a party to the contract nor incur any liability thereunder.
- Parties involved have reviewed the plans and specifications/bid and understand the scope of work, construction standards, environmental requirements, materials, liquidated damages, inspections, change orders and payment procedures.
- The Contractor will submit evidence (i.e. unconditional lien waivers) that all payrolls, labor, equipment and material bills, and other indebtedness connected with the work have been paid and at completion of the Contract, will furnish and sign Form RD 1924-10 "Release of Claimants", Form RD 1924-9 "Certificate of Contractor's Release", and RD 1924-19 "Builders Warranty" (or similar documentation).
- Acceptance by the Owner will not relieve the Contractor of obligation to the Owner to discharge any and all liens for the benefit of subcontractors, laborers, material, person, or any other persons performing labor upon the work or furnishing material or machinery for the work covered by this contract, which have attached to or may subsequently attach to the property, or interest of the Owner.
- All notices, consents, or other acts to be given or done hereunder shall be valid only if in writing.
- Disputes in the construction and/or completion of the contract will be resolved between the Owner and the Contractor with RD remaining informed by both parties.
- Should a dispute arise between the Contractor and Owner, the Contractor will have 90 days to complete court proceedings. If these actions are not taken within this timeframe, RD will return funding obligated toward the project and the Owner will be responsible for the decision rendered by the judge.

Responsibilities:

- Owner is responsible to monitor progress of proposed repairs, approve payments to contractor as specified in contract, and attend final inspection. Owners are responsible for property inspections, to address any faulty or defect in work or nonconformance with the contract and provide written notice to RD to protect their own interests.

- Contractor’s responsibilities include obtaining and displaying posters and permits as required, perform work in accordance with approved plans, specifications and apply for preapproval for contract change orders if necessary. Notify owner and RD when work is complete. It is the Contractor’s responsibility to obtain and furnish RD with all permits, inspections and approvals required by the local code department. Be advised that should human remains, historic or cultural resources be uncovered during excavation or site development, all work must be stopped until an additional environmental analysis is completed.
- RD’s responsibility is to protect the government’s interest, monitor progress of construction, authorize partial payments, final payments, and authorize contract change orders. RD inspections do not create or imply duty or obligation to the owner and are conducted to determine whether the property provides adequate security and dwelling requirements.

Check the applicable:

- Contract is in excess of \$10,000 and subject to Executive Order 11246, as amended. Form RD 400-1 has been executed by the Owner, Form RD 400-3 has been issued by the Agency along with applicable posters to be displayed at the job site, and Form RD 400-6 has been executed by the Contractor. Established affirmative action goals for women and minority construction participation are included in the contract, or;
- Contract is not in excess of \$10,000 and is not subject to EO 11246.
- Contractor and subcontractors (if applicable) greater than \$25,000 sums have executed Form AD 1048, “Certification Regarding Debarment, Suspension, Ineligibility” in accordance with EO 12549; or
- Contract sum is \$25,000 or less and Form AD 1048 is not required.
- Form RD 1924-25, “Plan Certification” is required and has been completed; or
- Form RD 1924-25, “Plan Certification” is not required.
- Contractor will obtain applicable building and occupancy permits; or
- No building or occupancy permits are required.
- The presence of Lead-Based Paint (LBP) is presumed. Contractor will use EPA certified Safe Work Practices in accordance with 24 CFR 35.1350, HUD LBP regulations during completion of work to be performed. Upon completion of the contract, the area in which the work was performed will be subject to a LBP Clearance Test, as performed by a licensed LBP Inspector or Risk Assessor. Should the test results indicate an unacceptable level of LBP residue, the Contractor will be responsible for additional cleanup, and providing an acceptable clearance report from a LBP Inspector or Risk Assessor to RD. No payment for work will be made until an acceptable clearance report is provided; or
- No LBP Clearance Test is required.
- No subcontractors will be utilized; or
- A list of subcontractors will be provided by the Contractor.

Owner: _____ Co-Owner: _____

Contractor: _____ RD Representative _____
