

Existing Dwelling and Repair Escrow Requirements

Single Family Housing Guaranteed Loan Program
(SFHGLP)

 November 2020



Welcome to the Existing Dwelling and Repair Escrow Requirements online training module presented by USDA's Single-Family Housing Guaranteed Loan Program.



- Ensuring a home is free of any health, safety, or structural issues sets the foundation for successful homeownership by avoiding potential financial burdens that could have been avoided before the loan even closed.
- Repairs are an eligible loan cost and can often be included in the loan amount.
- This module will assist you in identifying key property requirements and the proper steps to take when repair escrows are needed.

Existing Dwelling

7 CFR 3555.202(b) and HB-1-3555, Chapter 12.9(A)

Existing Dwellings:

- Include attached, detached, or semi-attached dwellings that have been completed for more than 12 months or less than 12 months and previously occupied.
- Must be structurally sound and in good repair or be placed in good repair with the loan funds.



- USDA can guarantee loans for both New Construction and Existing homes.
- Existing dwellings are defined as:
- Attached, detached or semi-detached dwellings that have been completed for over 12 months or less than 12 months and previously occupied.
- These homes must be structurally sound and in good repair or be placed in good repair with the loan funds.

Existing Dwelling

7 CFR 3555.202(b) and HB-1-3555, Chapter 12.9(A)



HUD Handbook 4000.1: Certification property meets the Minimum Property Standards. Certified by FHA roster appraiser or Non-FHA roster appraiser deemed qualified by lender.



Private Well and/or Septic: Not required for properties that meet HUD Handbook requirements unless additional inspection is required by appraiser, inspector, or lender.



Termite/Pest: Only if required by lender, appraiser, inspector or State Law.



Thermal Standards: Not required for existing dwellings.



Required Repairs: Lender, appraiser, and/or inspector may require repairs that pose any health or safety issues or are needed to preserve the continued marketability of the property. Applicants are always encouraged to obtain a detailed home inspection.

4

Required inspections include:

- Certification that the property meets the requirements of the HUD Handbook 4000.1.
- Typically, an FHA roster appraiser will certify on page 3 of the appraisal that the property meets the minimum property requirements of the HUD Handbook.
- The lender may utilize a non-FHA roster appraiser to make this certification; however, it is their responsibility to ensure the individual is qualified to make this determination and ensure all HUD handbook requirements are met.
- Private well and/or septic inspections are not required for properties that are certified to meet the HUD handbook requirements unless required by the lender, appraiser, or an inspector.
- Termite and pest inspections are only required if required by the lender, appraiser, inspector, or state law.
- Thermal standards are not required for existing dwellings.
- Required repairs are limited to those repairs necessary to preserve the continued marketability of the property and to protect the health and safety of the occupants.
- Although not required, applicants are encouraged to obtain a detailed home inspection of the property independent of the HUD handbook certification.

Applies to:

Repair Escrows -
Post Issuance of the
Loan Note Guarantee

HB-1-3555, Ch. 12.9(C)

✓

Escrow Checklist

- ✓ Does not affect the livability of the home and less than 10% of loan amount,
- ✓ Signed contract between the borrower and the contractor.
- ✓ Escrowed funds are not less than 100% of the repair cost contract.
- ✓ Closing Disclosure reflects the holdback.
- ✓ Development will be completed within 180 days of closing.
- ✓ Escrow account is established in a federally supervised financial institution.

Does not apply to:

Single Close Combination to
Construction Permanent
Loans OR Rehabilitation or
Repair Loans

HB-1-3555, Ch. 12, Sec. 6

✗

Rural Development may issue the loan note guarantee prior to completion of repairs if the following conditions are met:

- The work to be done does not affect the livability of the home and is less than 10% of the final loan amount.
- There is a signed contract between the borrower and the contractor.
- Rural Development requires an escrow fund of no less than 100% of the repair contract; however, the lender may require additional escrow funds.
- The closing disclosure reflects the holdback of funds needed for the repair contract.
- The work will be completed within 180 days, unless an extension is otherwise granted by Rural Development
- The escrow account is established in a federally supervised financial institution.
- Please note this does not apply to Single Close Combination to Construction Permanent or Rehabilitation and Repair Loans. Those requirements can be found in HB-1-3555, Chapter 12, Section 6.

- A Certificate of Completion is required to verify the work was completed and must be completed by the appraiser.

It must state that:

- the improvements were completed in accordance with the requirements and conditions in the original appraisal report,
- be accompanied by photographs of the completed improvements; and
- be signed by the individual performing the final inspection.

Any remaining funds in the escrow account after the work has been completed may be applied as follows:

LEARNING CHECKS

7 CFR Part 3555 / HB-1-3555



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

QUESTION

Training Topic

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

TRUE/FALSE or other answer options will be displayed



9

The following question slides will list:

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

ANSWER

Training Topic

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

X. Correct Response

- Additional guidance for clarification provided



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!



Let's get started!

QUESTION

Existing Dwelling and Repair Escrow Requirements

Which of these items are not required for an existing dwelling to be eligible for funding with Rural Development.

- A. Adequate heating
- B. Flawless exterior paint
- C. Structurally sound
- D. Functioning wastewater disposal system



12

Read the question on the slide and select a response

ANSWER

Existing Dwelling and Repair Escrow Requirements

3555.202(b) and HB Chapter 12.9(A)

B. Flawless exterior paint (chipping lead-based paint must be addressed)

- Existing dwellings are considered to meet the following criteria when inspected and certified as meeting HUD requirements for one-to-four unit dwellings in accordance with Agency guidelines:
 - (1) Be structurally sound;
 - (2) Be functionally adequate;
 - (3) Be in good repair, or to be placed in good repair with loan funds; and
 - (4) Have adequate and safe electrical, heating, plumbing, water, and wastewater disposal systems.

B. Flawless exterior paint.

Rural Development does not require that a property have flawless exterior paint; however, if the appraiser notes a safety hazard due to chipping paint that may contain lead, repairs may be required.

QUESTION

Existing Dwelling and Repair Escrow Requirements

Existing dwellings are defined as:

- A. Completed for 12 months.
- B. Completed for less than 12 months but previously occupied.
- C. All of the above.



14

Read the question on the slide and select a response

ANSWER

Existing Dwelling and Repair Escrow Requirements

HB Chapter 12.9(A)

C. All of the above

This includes:

- Existing dwellings over 12 months old.
- An existing dwelling that has been completed for 12 months or more with no occupancy.
- Homes less than 12 months old but previously occupied.



- C. All of the above.
- Existing dwellings would include existing homes over 12 months old, a new construction home that has been completed for over 12 months with no occupancy, and homes less than 12 months old but previously occupied.

QUESTION

Existing Dwelling and Repair Escrow Requirements

Rural Development is responsible for monitoring the completion of the work on the property.

A. TRUE

B. FALSE



16

Read the question on the slide and select a response

ANSWER

Existing Dwelling and Repair Escrow Requirements

3555.202(c) and HB Chapter 12.9(C)

B. FALSE

The lender is responsible for monitoring the completion of the work and the release of funds to pay for the work. All documentation supporting the development and confirmation of the completion will be retained in the lender's permanent mortgage file and is subject to the certification of Form RD 3555-18/18E.



- B. False
- The lender is responsible for monitoring the completion of the work and the release of funds to pay for the work.
- All documentation supporting the development and confirmation of the completion will be retained in the lender's permanent mortgage file.

QUESTION

Existing Dwelling and Repair Escrow Requirements

Heidi bought a house that needed repairs. She put zero money down, all closing costs and repairs were paid by the seller. When all the repairs were complete, there was still \$950 remaining in the Escrow Account that was set up for the repairs. What happens with the remaining funds?

- A. Heidi gets to pick another project to have done on the house.
- B. Heidi gets to keep the \$950 and spend it however she chooses.
- C. The remaining funds will be used to reduce the unpaid principal balance of her new mortgage.
- D. The lender keeps the money as a fee for the loan.



18

Read the question on the slide and select a response

ANSWER

Existing Dwelling and Repair Escrow Requirements

3555.202(c) and HB Chapter 12.9(C)

C. The remaining funds will be used to reduce the unpaid principal balance of her new mortgage.

Any funds remaining in the escrow account upon completion of the work, that are representative of loan funds or a seller concession as part of the sales contract, will be used to reduce the unpaid principal balance of the mortgage.



- C. The remaining funds will be used to reduce the unpaid principal balance of her new mortgage
- Any remaining funds in the escrow account for repairs, once the work is complete, will be used to reduce the unpaid principal balance of the mortgage.
- The only exception is, if the applicant used personal funds to set up the repair escrow account, those may be returned to the applicant.
- If seller funds, that were not seller concessions, are used to set up the escrow for repairs, they may be returned to the seller.

QUESTION

Existing Dwelling and Repair Escrow Requirements

If the borrower does the repairs themselves, is the lender still responsible to monitor for completion?

A. YES

B. NO



20

Read the question on the slide and select a response

ANSWER

Existing Dwelling and Repair Escrow Requirements

3555.202(c) and HB Chapter 12.9(C)

A. YES

All remaining requirements as noted at Paragraph 12.9 C are applicable. The lender is responsible for monitoring the completion of the work and the release of funds for payment of the work.



- A. YES
- All remaining requirements as noted in Paragraph 12.9 C are applicable.
- The lender is responsible for monitoring the completion of the work and the release of funds for payment.
- All documentation supporting the project and completion must be retained in the lender's permanent file.

Way to Go!

LEARNING CHECK
COMPLETED!



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 Existing Dwelling and Repair Escrow Requirements .
- Complete program requirements and guidance can be found in 7 CFR Part 3555, Subpart E, Section 3555.202 and Chapter 12, Section 3 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	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, WY, WY
Information to include in email:	Production Team Two: SFHGLPTWO@usda.gov AR, KY, LA, MN, MO, MS, ND, NE, NJ, NY, OK
<ul style="list-style-type: none"> 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 Three: SFHGLPTHREE@usda.gov CT, DE, GA, IL, MA, MD, ME, MI, NC, NH, RI, SC, VT, WV
Lender Approval/Recertification	Production Team Four: SFHGLPFOUR@usda.gov FL, IN, OH, PA, PR, TN, VA, VI
Lender Self-Report	sfhgld.compliance@usda.gov
Program Training	sfhgld.lenderpartner@usda.gov
Program Marketing & Outreach	
General Loan Scenario Questions	sfhgld.program@usda.gov
Loan Policy/Regulation/Handbook	
Loan Servicing	sfhgld.servicing@usda.gov
Technical Issues: GUS	RD.HID@USDA.GOV
Technical Issues: e-Authentication	E-Authentication FADs: (https://www.esuth.usda.gov/esuth/ib/usda/faq) E-Authentication Contact Us: (https://www.esuth.usda.gov/esuth/ib/usda/contactus)
Loss Claims	guarantee.svc@usda.gov
Monthly & Quarterly Status Reporting	
GUS User Agreements	rd.nfac.hsb@usda.gov
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/USDA/subscribe/new	

- 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!



www.rd.usda.gov
1 (800) 800-670-6553



USDA is an equal opportunity provider, employer, and lender.



28

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