

August 26, 2016

TO: State Directors  
Rural Development

ATTN: Program Directors  
Single Family Housing

FROM: Tony Hernandez /s/ *Tony Hernandez*  
Administrator  
Housing and Community Facilities Programs

SUBJECT: Short Sale and Real Estate Owned (REO) Acquisitions  
By Nonprofit Organizations and Public Bodies

Rural Development strongly supports nonprofit and public bodies (collectively, “organizations”) in their efforts to improve rural communities across America. This includes providing homes in rural areas to prevent homelessness, such as temporary housing initiatives for displaced individuals often in recovery from substance abuse disorders. This unnumbered letter provides guidance regarding voluntary short sales by borrowers nationwide as well as the sale of Real Estate Owned (REO) properties in decentralized states\* working with these organizations.

Agency regulation permits voluntary/short sales by borrowers as well as the sale of REO properties at a discount with special preferences to nonprofits and public bodies providing transitional housing to reduce homelessness. The Customer Service Center (CSC) approves short-sales for centralized states. Decentralized states are responsible for voluntary/short sales and disposing of REO properties within their respective inventories.

### **Voluntary/Short Sale Acquisitions**

Short sales by borrowers to organizations are permissible under 7 CFR 3550.211(d) (1). More information on voluntary sales may be found in HB-1-3550, Chapter 13, Section 5.

**EXPIRATION DATE:**  
August 31, 2017

**FILING INSTRUCTIONS:**  
Housing Programs

Voluntary sales by borrowers to organizations may also qualify for nonprogram (NP) assumption financing in accordance with 7 CFR 3550.74 (NP loan terms), 3550.67 and Chapter 11, Section 1 of HB-1-3550. NP loan assumption terms up to 30 years, not to exceed the remaining economic life of the dwelling, are authorized for the purposes of transitional housing described in this unnumbered letter.

### **REO Purchase at Discount with No Down Payment, Expanded Repayment Terms**

Organizations that purchase REO property for transitional housing purposes may do so at a discount of no more than ten percent (10%) below market value. For any REO property, no earnest money deposit is required. Further, the agency will offer financing on NP rates and up to 30 year terms, with no down payment required. Special terms can be considered, depending upon the planned use of the property and repayment ability. Although NP REO properties are generally sold “as is,” the agency can commence repairs to make a property decent, safe and sanitary (DSS) as reflected in the purchase agreement and sales price if agreed upon by the agency and the organization.

Offers from organizations on program REO properties will be considered after the first 60 days of listing (and after the first 30 days following a price reduction) in order to give appropriate priority to program borrowers. Offers from organizations on NP REO properties may be considered at any time. After receiving a written request from an organization for the purchase of an REO property (after the reservation period for program REO properties and at any time for NP REO properties), the agency will withdraw the property from the market for up to 30 days in order to negotiate a purchase agreement.

Organizations considering voluntary short sales or the purchase of REO properties for transitional housing should be made aware that for properties in communities with populations of 20,000 or less, the Community Facilities (CF) program may be a possible financing tool. Projects must meet the CF eligibility criteria and align with the program’s definition of transitional housing, described in Attachment A of the Unnumbered Letter titled “Best Practices for Evaluating the Feasibility and Eligibility of Community Facilities Projects,” dated August 17, 2016.

If you have any questions, please contact Barry Ramsey, Director, Single Family Housing Direct Loan Division at 202-720-5378 or email [barry.ramsey@wdc.usda.gov](mailto:barry.ramsey@wdc.usda.gov).

\* Decentralized states do not rely on the CSC for voluntary short sales or REO management. These states include AK, AZ, CA, CO, FL/VI, HI/WP, ID, IL, KS, LA, MO, MS, MT, NJ, NV, OH, OK, OR, PR, UT, VT/NH, WV