

CHAPTER 5: PROPERTY REQUIREMENTS

5.1 INTRODUCTION

Ensuring that the quality and the value of the property meet certain minimum thresholds is as important as ensuring that the applicant is willing and able to repay a loan. The Agency imposes quality and value requirements to protect the borrower's interest and, in the event of liquidation, the Agency's interest.

A. Overview of Property Requirements

1. Ensuring Quality

Four sections of this chapter deal with quality assurance. Section 1 describes the requirements for approving a site -- its location, its size and amenities, and the adequacy of available utility systems. Section 2 describes requirements for the dwelling itself, which must be modest, but also decent, safe, and sanitary. The standards that apply differ somewhat depending upon whether the dwelling will be newly constructed or is an existing home. Section 3 describes the Agency's requirements for the protection of environmental resources and the due diligence required with regard to hazardous substances. Section 6 provides guidance for monitoring construction activities to ensure that any construction or repair work is appropriately conducted and completed.

2. Ensuring Adequate Value

Before the Agency makes a loan, the Loan Originator must ensure that the applicant will have an appropriate form of ownership and that the Agency's interest in the property is adequately secured by the value of the real estate and the Agency's lien position. Section 4 specifies Agency security requirements and Section 5 provides guidance on conducting appraisals of the property's value.

B. Key Processing Steps Related to Property Requirements

When applicants locate properties, they must provide the Loan Originator with the basic information needed to initiate the Agency's review of the property. Applicants who do not currently own the property must submit an option or sales contract. Applicants who already own

the property must submit evidence of ownership, a legal description, and a property survey showing all structures on the site. The Loan Originator will use the USDA Address Verification website (<http://eligibility.sc.egov.usda.gov/eligibility/addressVerification>) to verify the property address. If the resulting code is 1 or 2, the Loan Originator should enter the address as indicated into UniFi. If the resulting code is not 1 or 2, the Loan Originator must verify the address with the appropriate local entities (such as the local post office or the local tax/property recording office), document how a reliable address for the property was established in the running record, enter that address into UniFi, re-verify the address using the address website prior to closing and update the address in UniFi if appropriate.

1. Appraisal

Appraisals may be completed by qualified Agency staff or contract appraisers. Depending upon the purpose of the proposed loan, the appraiser may be asked to give an “as-is” or “as-improved” value.


2. Review of Property and Site for Compliance with Agency Standards

Before loan approval, the Loan Originator must confirm that the property meets, or will meet with any planned constructions or repairs, all applicable Agency requirements. This is accomplished through a review of opinions or determinations made by qualified third-parties (such as appraisers, local building officials, architectural and engineering professionals, and trades professionals).

3. Identification and Correction of Deficiencies

If at any point during the review process, deficiencies are identified that jeopardize the Agency’s ability to approve a loan, the Loan Originator must notify the applicant and give the applicant at least 15 days to resolve the deficiency. For example, if an inspection reveals a structural deficiency that can be corrected, the applicant could negotiate with the seller to reduce the sales price so that funds to correct the deficiency could be included in the loan, or to correct the deficiency before the property is transferred.

If a deficiency cannot be satisfactorily corrected, the Loan Originator notifies the applicant and provides a new Form RD 1944-59, Certificate of Eligibility, which is signed by the Loan Approval Official.

 <p>Informing the Applicant</p> <p>Within 3 business days of the applicant identifying a specific property, the Loan Originator must send the applicant the items listed in Paragraph 3.8 A.</p>
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4. Documenting the Acceptability of Seller Completed Repairs

As part of the contract negotiations, a seller often agrees to complete repairs identified by the buyer at the time of signing the sales contract or later identified by the buyer's inspectors (refer to Paragraph 5.7 A.) and agreed to through an addendum to the contract. The Field Office should ensure that the repair conditions in the contract or addendum provide the specifics necessary for the seller to properly address the repair. Ideally, the contract or addendum will detail the existing problem, how the repair will be completed, who will perform the work (a licensed contractor should perform work that demands technical expertise), and how the repairs will be verified. If the repair conditions are vague or ambiguous, the Field Office should encourage the buyer to seek an addendum that better defines the repair conditions.

Before loan closing can occur, receipts for the repair work and any associated permit/contract documents must be obtained from the seller and reviewed by the Field Office. Documentation on all agreed to repairs must be provided. In addition, the buyer must be instructed to inspect the completed work and provide the Field Office with a written statement of acceptance or a written statement outlining deficiencies in the seller completed repairs. If deficiencies are noted, the buyer and seller must work to address the deficiencies before loan closing can occur.

SECTION 1: SITE REQUIREMENTS [7 CFR 3550.56]

5.2 OVERVIEW

Once the applicant has found a property, the Agency needs to ensure that it fits program guidelines regarding sites. The site must be developed according to the development standards imposed by State or local government. These standards are often contained in zoning ordinances, building codes, subdivision regulations, and/or construction standards. In addition, the site must be located in a rural area; be modest; meet minimum standards regarding water and wastewater systems; and meet the Agency's street and access requirements. This section addresses these site requirements.



5.3 RURAL AREA DESIGNATION

A. Rural Area Definition

Rural areas are defined as:

- Open country or any town, village, city, or place, including the immediate adjacent densely settled area, which is not part of or associated with an urban area and which:
 - Has a population not in excess of 2,500 inhabitants; or
 - Has a population in excess of 2,500 but not in excess of 10,000 if it is rural in character; or
 - Has a population in excess of 10,000 but not in excess of 20,000, and-
 - Is not contained within a Metropolitan Statistical Area (MSA); and
 - Has a serious lack of mortgage credit for lower and moderate-income families as determined by the Secretary of Agriculture and the Secretary of Housing and Urban Development.
- Any area classified as “rural” or a “rural area” prior to October 1, 1990, and determined not to be “rural” or a “rural area” as a result of data received from or after the 1990, 2000, or 2010 decennial census, and any area deemed to be a “rural area” at any time during the period beginning January 1, 2000, and ending December 31, 2010, shall continue to be so classified until the receipt of data from the decennial census in the year 2020, if such area has a population in excess of 10,000 but not in excess of 35,000, is rural in character, and has a serious lack of mortgage credit for lower and moderate-income families.

Paragraph 5.3 Rural Area Designation

1. Assessing “Open Country”

A site that is in “open country not part of or associated with an urban area” is one that is separated by open space from any adjacent densely populated urban area. Open space includes undeveloped land, agricultural land, or sparsely settled areas. Open space does not include physical barriers (such as rivers or canals), public parks, commercial and industrial developments, small areas reserved for recreational purposes, and open space set aside for future development.

In order to determine if a property is in open country, the Loan Originator should review recent maps, aerial photographs, and/or conduct a site visit. In particular, the Loan Originator should look for significant new development in parts of rural areas that adjoin non-rural areas, and investigate the likelihood that local authorities may re-designate the area’s corporate limits.

2. Assessing “Population”

In order to find the population figures for a locality, the Loan Originator should use the decennial U.S. Census of Population, or population updates published by the U.S. Bureau of the Census.

3. Assessing “Serious Lack of Mortgage Credit”

This determination is made jointly by the Secretary of Agriculture and the Secretary of Housing and Urban Development (HUD).

B. Special Considerations**1. Exception for Rural Areas Designated Prior to October 1990**

If an area was classified as rural prior to October 1, 1990, even if it is within an MSA, it may be still considered rural as long as it: (1) has a population between 10,000 and 35,000, (2) is rural in character, and (3) has a serious lack of mortgage credit. This designation can remain effective through receipt of census data for the year 2020. Or;

2. Exception for Rural Areas Designated Between January 1, 2000 and December 31, 2010.

If an area was classified as rural or deemed eligible any time between January 1, 2000 and December 31, 2010, even if it is within an MSA, it may be still considered rural as long as it: (1) has a population between 10,000 and 35,000, (2) is rural in character and (3) has a serious lack of mortgage credit. This designation can remain effective through receipt of census data for the year 2020.

3. Contiguous Areas

Two or more towns, villages, cities, or places that are contiguous may be considered separately for a rural designation if they are not otherwise associated with each other, and their densely settled areas are not contiguous.

When determining the population count for an area, the Loan Originator also should consider developed areas in contiguous counties or states. In cases involving contiguous counties, the appropriate population figure to be used for the area in question should be determined after consultation with the State Director. In an area involving contiguous states, the applicable population figure should be determined through an agreement between the two State Directors. The Loan Approval Official should contact both State Directors to help make this determination.

C. Reviewing Rural Area Designations

An area's rural designation may be changed as a result of a periodic review or after the decennial census of population. Both types of review are discussed below. In all cases, the local office should maintain a perpetual master file to document all rural area decisions and include documentation of all public notification actions taken.

1. Periodic Reviews

Each Field Office must review all areas under its jurisdiction every 5 years to identify areas that no longer qualify as rural. In areas experiencing rapid growth and in eligible communities within MSAs, the review should take place every 3 years. Field Office files must contain documentation that local planning boards, where available, were contacted at the time of each review to verify that areas considered open spaces are not scheduled for development in the next 5 years.

Paragraph 5.3 Rural Area Designation

Field Staff must prepare a rural area review report that includes a recommendation on those areas that should be re-designated. An acceptable form for this report is a map showing an outline of the area recommended to be re-designated, and a cover letter explaining the reasons for the recommendation. The review report must be signed by the Loan Approval Official, and submitted to the State Director on or before February 28 of the review year.

2. Census Reviews

In addition to periodic reviews, the State Director is responsible for implementing re-designations based on the decennial U.S. Census of Population and any biannual updates. Immediately after receiving the population information from the Census Bureau, the State Director must make appropriate changes in designation for areas with populations under 10,000.

3. Public Notice

90-Day Public Notice: State or Field office must publish a 90-day notice informing the public that analysis is being conducted to determine the area's eligibility designation. The 90-day public notice must specify the area that is being studied and invite comments from the public. The notice should be publicized and targeted to partners, groups, and organizations that are engaged in community and/or housing activities. The State Director must also notify the Congressional delegation in the affected area(s) of the analysis, and invite their feedback.

The notice may be published via the State Office ListServ notice or GovDelivery email service (if available), RD State Office Home page, or in a newspaper of general circulation within the area to be studied. When publishing via newspaper, the notice must be in easily readable type in the non-legal section of the newspaper(s) and must be bilingual if the affected area is largely non-English speaking or bilingual. The notice should appear for at least three consecutive days if published in a daily newspaper, or in two consecutive publications if published in a weekly newspaper.

During the 90-day period, State Directors must schedule a meeting, webinar, or conference call with stakeholders to obtain their input and feedback regarding the potential loss of eligibility for RHS programs. The State Director will consider public and Congressional feedback when making the final rural area determination. The State Director will also brief the Congressional delegation on the results of the analysis and the final rural area determination.

30-Day Public Inspection Period: Prior to making the final rural area decision, the State Director must provide the public an opportunity to review any comments that were received in response to the 90-day public notice.

30-Day Final Notice: If the State Director determines that the rural area designation will change from rural to non-rural, a one-time 30-day notice must be published. The notice must describe the revised boundary lines, the effective date of the re-designation, and provide a link to the map eligibility site that will reflect the change. The notice must be disseminated using the methods described above.

4. Final Determination

The State Director will make a final determination on designations based on the review report and public comments and notify the Field Office of the final decision.

5. Designation of Eligible and Ineligible Area Boundary Lines

By September 30th of each review year, or after the census review is complete, the State Director will develop, clear and distribute a State Supplement that updates, establishes, lists, and maps all ineligible areas in accordance with RD Instruction 2006-B. The State Supplement will include county maps showing all ineligible areas in each county.

Designation of eligible and ineligible areas will be updated to the public website: <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>.

Once the State has completed the review, a visual presentation of those areas designated as ineligible will be documented in hard copy map. The maps will present the entire county and include the official boundary lines of eligible areas. Maps for update to the public website must be presented in a Geographic Information Systems (GIS) shape file or hard copy paper map. Road maps may be utilized, hard copy, as long as spatial information such as rivers, lakes and cities are labeled. Scale and accuracy of the designated ineligible area is important.

Boundary lines must meet the following criteria:

- If the boundary line is a road, the boundary between eligible area and ineligible area will be represented as the middle of the road. With this type of boundary line, one side of a road may be eligible, while the remaining side is ineligible.
- Artificial buffer zones, such as an imaginary line 100 feet from a road will not be used.

Paragraph 5.3 Rural Area Designation

- Boundary lines that are defined as city or town limits must be defined and labeled as of a specific date. Example – Ineligible area is the Claremore, Oklahoma limits as of January 1, 2009. Changes to the city limits such as annexation subsequent to the defined date will require review, public notification, preparation of a revised State Supplement, and update to the public eligibility website prior to implementation of the revised city limit boundary.

In this example, the re-designated area becomes ineligible when the process for the change is complete. The update of the State Supplement and the website should be implemented at the same time to the extent feasible.

Submitting Ineligible Area changes:

Requests for re-designation of ineligible area on the public website will be forwarded by the State Director together with the required State Supplement, in accordance with the instructions in Attachment 5-D. Please see Attachment 5-E, Eligibility System Modification Request Process, for detailed instructions and Attachment 5-F, Eligibility System Modification Workflow, is provided for visual purposes.

6. Making Loans in Areas Changed to Non-rural

If an area's designation changes from rural to non-rural, the Loan Approval Official may approve loans in that area only under the circumstances listed below.

- If an applicant who applied before an area's designation changed selects a property in the newly designated non-rural area, a loan may be made for that property if it meets all other eligibility requirements.
- New conditional commitments may be issued in non-rural areas if a purchaser is found whose loan application was complete before the area's designation changed.
- Existing conditional commitments will be honored.
- REO property sales and transfers with assumption may be processed in areas that have changed to non-rural.
- Section 504 Loan and Grant assistance may be provided on a property that already has an Agency loan.

Subsequent loans may be made on a property that already has an Agency loan to: (1) make necessary repairs; (2) to pay equity in connection with an assumption of the Agency loan; or (3) to pay equity to a departing co-borrower.

5.4 MODEST SITES

Modest sites are defined by their size, value, and the presence of any outbuildings. Therefore, the Loan Originator must verify that the requirements listed below are met.

- **Size.** The site must not be large enough to be subdivided under local subdivision regulations.
- **Value.** The value of the site should not exceed 30 percent of the as-improved market value of the property. The 30 percent limitation may be exceeded if the site cannot be subdivided into two or more sites and the value of the site is typical for the area, as evidenced by the appraisal and the practices of other lenders.
- **Farm Buildings.** The property must not include farm service buildings; however smaller outbuildings such as storage sheds are allowed.

5.5 ADEQUATE WATER AND WASTEWATER SYSTEMS

The site must have water and wastewater disposal systems, whether individual, central, or privately-owned and operated, that meet the applicable water and wastewater disposal system requirements of RD Instruction 1924-C. There must be assurance of continuous service at reasonable rates for central water and wastewater disposal systems. A system owned or operated by a private party must have a legally irrevocable agreement which allows interested third parties to enforce the obligation.

Private companies usually inspect individual wells and septic system and provide written results of the inspection. In addition, the responsible local or State regulatory agency must verify, in writing, that the privately-owned water and wastewater disposal systems, that serve multiple households, comply with the Safe Drinking Water Act (42 U.S.C. 300h) and the Clean Water Act (33 U.S.C. 1341), respectively. Inspections are not required on public water and wastewater disposal systems.



SECTION 2: DWELLING REQUIREMENTS [7 CFR 3550.63(a)]

5.6 MODEST HOUSING



To be considered “modest”, the property must be one that is considered modest for the area, must not have a market value in excess of the applicable area loan limit, meet the standard square footage consideration, and must not have certain prohibited features.

A. Establishing Area Loan Limits Within a State

State Directors have two options for establishing area loan limits that are discussed below; combining the options is not permissible. Regardless of the option chosen, the area loan limit will not exceed the local HUD 203(b) limit in effect unless approved by the Deputy Administrator, Single Family Housing.

Option 1

The National Office will provide State Offices the cost to construct a modest house. The cost will not include a site or typical site development costs. Each State must collect and maintain the typical market value of sites, the cost of water and sewage, driveways, and landscaping, etc. for each area. The market value must be based on comparable sales data for typical sites and improvements in each area. The cost to construct and the market value of the improved site will be added together to create Option 1 for the area loan limits.

In lieu of establishing per county limits, establishing the limits on a regional or statewide basis is allowable under this option if the counties that constitute the group are similar in economic characteristics, are contiguous, and variances in improved site values are minimal. To determine the regional or statewide limit, add the average market value of the improved sites for the group to the lowest residential cost figure among the group.

Option 2

States may choose to adopt the State Housing Authority (SHA) limit as long as the SHA limit is within 10 percent of Option 1. If the SHA uses targeted and non-targeted limits, the non-targeted limit will be used for our purposes.

B. Notification

State Directors will issue a State Instruction establishing which option will be used. Once an option is chosen, States are not authorized to alternate between options throughout the year without prior approval from the Deputy Administrator, Single Family Housing. Requests for a change must be accompanied by documentation to support the request. States will notify real estate agents, brokers, building contractors, lenders, partners, etc. of area loan limits as well as any changes throughout the year.

Individual exceptions to the established area loan limits may be granted to accommodate the specific needs of an applicant, for example, to serve exceptionally large households or to provide reasonable accommodation for a household member with a disability. Requests for exceptions may be approved by the State Director if the cost of the property will exceed the limit by \$5,000 or less.

To request an exception, the Loan Originator must fully document the need for the exception.

- For accommodations for household members with disabilities, the Loan Originator must provide the cost of accommodations that demonstrates that these costs cannot be accommodated within the area's modest housing limit; and
- If approval is granted, the Loan Originator should follow UniFi procedures for overriding the maximum loan limits.

C. Standard Square Footage Consideration

Agency financed properties should generally not exceed 2,000 square feet living area, above grade as a general guideline, but not a firm limitation. The square footage consideration may be waived by the Loan Approval Official's next-level supervisor when the Field Office determines:

- The subject property is modest;
- The property is typical for the area and/or the applicant has special needs due to an exceptionally large household or a household member with a disability; and
- The property's anticipated utilities and maintenance costs are reasonable for the area and will not place a strain on the applicant's budget.

Paragraph 5.6 Modest Housing

The standard square footage consideration is based on gross living area that is above grade. An attached garage and a basement (including a basement that is partially above grade or is a walk-out) should not be included in the square footage calculation. This approximate calculation must be made at the time the Agency receives a purchase agreement or construction contract. Concerns regarding the size of the house must be immediately communicated in writing to the applicant.

D. Prohibited Features

1. Swimming Pools

Properties that include in-ground pools will not be financed. It is not acceptable to remove a pool before or after closing to meet this requirement.

2. Income-Producing Land or Structures

Properties that include income-producing land or buildings designed to accommodate a business or income-producing enterprise will not be financed. Home based operations that do not require specific features such as child care, product sales, or craft production are not restricted.

5.7 DECENT, SAFE AND SANITARY DWELLINGS

To help ensure that dwellings are “decent, safe, and sanitary,” the Agency has established minimum standards for existing and new dwellings.

A. Existing Dwellings

Existing dwellings must be structurally sound and functionally adequate, and be in good repair or be placed in good repair with loan funds.

For an initial Section 502 direct loan to purchase an existing dwelling, the applicant must engage the services of a State-licensed inspector to perform a whole house inspection and certify that the dwelling meets the Agency’s standards with respect to: (1) termites and other pests (this may be separate from the whole house inspection); (2) plumbing, water and sewage; (3) heating and cooling; (4) electrical systems; and (5) structural soundness. The inspection report must be a comprehensive document that meets the minimum standards of the professional home inspector associations. When a State does not license inspectors, a qualified, independent, third-party inspector may perform the inspection and provide the necessary certifications.

The Loan Originator should inform the applicant that if their loan application request falls through for whatever reason, they will remain responsible for paying their inspectors (unless the seller agreed to cover the inspection fees).

Once a report(s) covering all five items noted above is received by the Agency, the Loan Originator must identify any noted deficiencies that may make the home not decent, safe, and sanitary. If these deficiencies are not already addressed in the option or sales contract, the Loan Originator must inform the applicant that they must be addressed either through the seller assuming responsibility for the repair prior to closing or the repairs being required post-closing.

Special Considerations:

Low risk of termite infestation: A State Director may issue a state supplement waiving the termite inspection requirement provided the state's probability of termite infestation is slight to none and state law does not require one. The supplement, which must receive prior approval through the National Office, can remove the need for a termite inspection provided a dwelling shows no signs of active infestation.

Section 502 loan balance less than \$7,500 and the repayment schedule does not exceed 10 years: If the Section 502 loan balance is less than \$7,500 and the repayment schedule does not exceed 10 years, a whole house inspection is not needed and the dwelling may lack some equipment or features after repairs such as a complete bath, kitchen cabinets, closets, or completed finished interior in some rooms. These dwellings must otherwise meet the housing needs of the applicant and provide decent, safe, and sanitary living conditions when the improvements financed with the loan are completed.

Initial Section 502 loans for necessary repairs-only: An initial Section 502 loan can be made to an existing homeowner for necessary repairs provided any existing loan against the property is an affordable non-RHS loan. While a whole house inspection is not needed, the dwelling must otherwise meet the housing needs of the applicant and provide decent, safe, and sanitary living conditions when the improvements financed with the loan are completed.

B. New Construction

All construction must meet the standards contained in RD Instruction 1924-A. The process for ensuring that the Agency's construction standards are met is described in Section 6 of this chapter.



C. Survey Requirements

A survey is not required for any financed property unless the title insurance commitment specifically excludes coverage for the property and improvements in the loan policy. The currently adopted 2006 American Land Title Association (ALTA) lender's policy provides explicit "survey" (or boundary and encroachment) coverage without issuance of a special endorsement. A survey is usually required by the title insurance company to remove the exclusions from coverage related to boundaries, encroachments, easements and other matters when issuing an owner's title policy. Although an owner's policy is not required by the Agency, the borrower may choose to have this coverage and use loan funds to pay for it provided the loan does not exceed the appraised value.

When a new survey is needed, it must contain boundary lines, any improvements, encroachments on the subject or adjacent property, above-ground easements, set-backs imposed by either restrictive covenant or zoning, and any additional requirements needed to obtain title insurance. For new construction, the boundary corners must also be clearly marked. An existing survey may be used if it meets the requirements of the title insurance.

D. Flood-Related Requirements

Flood insurance is required for all dwellings located within the 100-year flood plain, unless FEMA has granted an exception, and flood insurance is available as part of the community's flood plain management regulations.

For all new construction, substantial improvements, and existing dwellings the lowest floor (including basement) must be elevated to or above the 100-year flood level.

In addition, for newly constructed and substantially rehabilitated dwellings, the construction materials and methods used must be for the purpose of making the structure resistant to flood damage, and minimizing any damage that may occur. RD Instruction 426.2 contains further guidance on the National Flood Insurance Program and flood-related requirements.

All dwellings within the 100-year floodplain must be served by public utilities that are located and constructed to minimize or eliminate flood damage, or have an on-site water supply and waste disposal system located and constructed to avoid contamination of the water supply by the septic system due to flooding.

HB-1-3550
Paragraph 5.7 Decent, Safe And Sanitary Dwellings

For all new construction, substantial improvements, and existing dwellings in a floodplain, the Agency must perform the eight step decision making process for alternative consideration in order to determine if a reasonable alternative to committing federal funding to a property in a floodplain exists. This process is outlined in detail in RD Instruction 1970-F, section 1970.256.

SECTION 3: ENVIRONMENTAL REQUIREMENTS [7 CFR 3550.5]



5.8 PROTECTION OF ENVIRONMENTAL RESOURCES

The Agency considers environmental quality equally with economic, social, and other factors in its program development and decision-making processes. The environmental review process is intended to help Agency officials make decisions that are based on an understanding of the environmental consequences of a proposed action, and to take those actions that protect, restore, and enhance the environment.

This paragraph contains a general discussion of basic environmental requirements. Detailed environmental policies and procedures can be found in 7 CFR Part 1970 and the corresponding staff instructions in RD Instruction 1970 series, which contains compliance requirements for the National Environmental Policy Act (NEPA), as well as numerous other laws, Executive Orders, and Departmental Regulations on a variety of other environmental issues.

In accordance with 7 CFR 1970.11, the environmental review must be concluded before the obligation of funds, therefore in no case will loan or grant funds be obligated without the completion of the environmental review. In addition, in accordance with 7 CFR 1970.5 (a) (5), mitigation measures described in the environmental review and decision documents must be included as conditions in Agency financial commitment documents, such as a conditional commitment letter or funding commitment.

While funds may be obligated subject to an appraisal, if the appraiser determines that there are environmental hazards on site, further environmental due diligence investigations may be required to determine the nature and extent of the contamination, and to determine the estimated cost of remediation. This information should be used by the Agency to make a decision related to property eligibility.



Environmental Library

At a minimum, each Field Office should maintain the following information in order to facilitate completion of environmental reviews. The State Environmental Coordinator can provide assistance in obtaining or understanding this information.

- The Environmental Resource Directory;
- Federal Emergency Management Agency (FEMA) floodplain maps;
- Natural Resources Conservation Service (NRCS) Soil Surveys and Important Farmland Soils; and
- U.S. Fish and Wildlife Service (USFWS) Coastal Barrier Resource System maps (as applicable).

A. Types of Environmental Reviews

NEPA requires that Agency actions be classified into 3 basic categories of actions: those that are categorically excluded from NEPA review; those for which more information is needed to determine if the project will significantly impact the environment, and therefore preparation of an Environmental Assessment (EA) will be required; and those that have been determined to significantly impact the environment, and therefore require preparation of an Environmental Impact Statement (EIS). The Agency has been allowed to establish 2 categories of Categorical Exclusions: those that involve no or minimal alterations in the physical environment and typically occur on previously disturbed land, and therefore require no or limited environmental documentation to be submitted by the applicant (RD Instruction 1970-B, section 1970.53), and those that will cause more alteration of the environment and therefore require the submission of an Environmental Report (a brief report on the current environment of the project area and the expected environmental impacts of the proposed project) (RD Instruction 1970-B, section 1970.54). This classification of actions provides the Agency with a starting point for beginning its environmental review process. Most single family housing activities do not adversely affect environmental resources and have no cumulative effect, and therefore will qualify as a Categorical Exclusion without an Environmental Report; those which affect resources or have a cumulative effect may require an Environmental Review or an Environmental Assessment. For a complete list of housing actions and their classifications, refer to RD Instruction 1970-B, sections 1970.53 and 1970.54.

1. Categorical Exclusions

In accordance with RD Instruction 1970-A, a Categorical Exclusion is an action that does not individually or cumulatively have a significant impact on the quality of the human environment.

The following are routine financial actions related to single family housing transactions that are classified as Categorical Exclusions without an Environmental Report:

- Financial assistance for the purchase, transfer, lease, or other acquisition of real property when no or minimal change in use is reasonably foreseeable.
- Financial assistance for the purchase, transfer, or lease of personal property or fixtures where no or minimal change in operations is reasonably foreseeable.
- Sale or lease of Agency-owned real property, if the sale or lease will have no or minimal construction or change in current operations in the foreseeable future.
- The provision of additional financial assistance for cost overruns where the purpose, operation, location and design of the proposal as originally approved has not been substantially changed.
- Minor construction proposals such as:

Paragraph 5.8 Protection of Environmental Resources

- Minor amendments or revisions to previously approved projects provided such activities do not alter the purpose, operation, geographic scope, or design of the project as originally approved;
- Repair, upgrade, or replacement of equipment in existing structures for such purposes as improving habitability, energy efficiency (including heat rate efficiency), replacement or conversion to enable use of renewable fuels, pollution prevention, or pollution control;
- Any internal modification or minimal external modification, restoration, renovation, maintenance, and replacement in-kind to an existing facility or structure;
- Construction of or substantial improvement to a single-family dwelling, or a Rural Housing Site Loan project serving up to four families and affecting less than 10 acres of land;
- Siting, construction, and operation of new or additional water supply wells for residential, farm, or livestock use;
- Replacement of existing water and sewer lines within the existing right-of-way and as long as the size of pipe is either no larger than the inner diameter of the existing pipe or is an increased diameter as required by Federal or state requirements. If a larger pipe size is required, applicants must provide a copy of written administrative requirements mandating a minimum pipe diameter from the regulatory agency with jurisdiction; and
- New utility service connections to individual users or construction of utility lines or associated components where the applicant has no control over the placement of the utility facilities.

For each proposed action, RD Instruction 1970-B, Exhibit D, “Environmental Checklist for Categorical Exclusions,” is prepared by the Agency to ensure that the specific proposal under consideration qualifies as a Categorical Exclusion, and that there are no extraordinary circumstances (RD Instruction 1970-B, section 1970.52) or cumulative impacts related to the proposal, that the proposal is not connected to other actions with potentially significant impacts (see 40 CFR 1508.25(a)(1)), and that it is not considered a cumulative action (see 40 CFR 1508.25(a)(2)).

In general, extraordinary circumstances (RD Instruction 1970-B, section 1970.52) are unique situations presented by specific proposals, such as characteristics of the geographic area affected by the proposal, scientific controversy about the environmental effects of the proposal, uncertain effects or effects involving unique or unknown risks, and unresolved conflicts concerning alternate uses of available resources within the meaning of section 102(2) (E) of NEPA. Exhibit 5-2 provides a listing of the most common extraordinary circumstances.

Exhibit 5-2
Extraordinary Circumstances
<ul style="list-style-type: none"> • Any violation of applicable Federal, state, or local statutory, regulatory, or permit requirements for environment, safety, and health. • Any proposal that is likely to cause uncontrolled or unpermitted releases of hazardous substances, pollutants, contaminants, or petroleum and natural gas products. • An adverse effect on the following environmental resources: <ul style="list-style-type: none"> ○ Historic properties; ○ Federally listed threatened or endangered species, critical habitat, Federally proposed or candidate species; ○ Wetlands; ○ Floodplains; ○ Areas having formal Federal or state designations such as wilderness areas, parks, or wildlife refuges; wild and scenic rivers; or marine sanctuaries; ○ Special sources of water (such as sole source aquifers, wellhead protection areas, and other water sources that are vital in a region); ○ Coastal barrier resources or, unless exempt, coastal zone management areas; and ○ Coral reefs. • The existence of controversy based on effects to the human environment brought to the Agency’s attention by a Federal, tribal, state, or local government agency.

RD Instruction 1970-B contains detailed information on the proper implementation of requirements affecting Categorical Exclusions.

It is important to note that development on tribal land or dependent Indian communities may require additional coordination with the tribe to determine if the proposal has an adverse impact on environmental or cultural resources. In accordance with RD Instruction 1970-H, Exhibit B, “When an applicant’s proposal is located on tribal lands, defined in 36 CFR § 800.16(x) as all lands within the exterior boundary of any Indian reservation and all dependent Indian communities, and that tribe has designated a Tribal Historic Preservation Officer (THPO) in accordance with Section 101(d)(2) of [National Historic Preservation Act (NHPA)], the SHPO participates only under the conditions specified in 36 CFR § 800.2(c)(1)(ii). If the Indian tribe has not designated a THPO, then the SHPO participates in Section 106 review pursuant to 36 CFR § 800.2(c)(2)(i)(B).” Exhibit D of RD Instruction 1970-H provides guidance on working with Indian tribes in the NHPA Section 106 review.

2. Environmental Reports and Environmental Assessments

If it appears that extraordinary circumstances and/or cumulative impacts may be involved, an Environmental Report (ER) or an Environmental Assessment (EA) may be required in accordance with RD Instruction 1970-B, section 1970.54 and RD Instruction 1970-C. Through these review processes, the Agency will acquire the necessary documentation to: (1) demonstrate compliance with requirements for protection of environmental resources, including the development of

Paragraph 5.8 Protection of Environmental Resources

practical alternatives to either avoid or lessen any adverse environmental impacts; and (2) demonstrate why the potential impact on resources is not considered to be significant and, therefore, an EIS is not required.

B. Flood Hazard Determination

FEMA's Standard Flood Hazard Determination Form (SFHDF) states whether or not the property and any existing structures are located in a Special Flood Hazard Area (SFHA), as identified and delineated by FEMA, and, if the property is within the SFHA, states the availability of flood insurance for this property through FEMA's National Flood Insurance Program (NFIP). Except for loans and grants with an original principal balance of \$5,000 or less, for which flood insurance is not required, a dwelling in a SFHA is **not eligible** for Federal financial assistance unless flood insurance through the NFIP is available. The information on the SFHDF will assist in the preparation of the environmental review documentation, which must examine whether or not there is a reasonable alternative to a proposed purchase or construction in a floodplain. The Loan Originator will be responsible for acquiring the SFHDF from CoreLogic Flood Services at: <https://www.floodcert.com/>. CoreLogic provides "Life of Loan Determination," in which the Agency will be notified should the site's floodplain designation change. The SFHDF must be acquired prior to the completion of the environmental review.

If the dwelling is located within a SFHA, the lowest floor (including basements) must be elevated above the base flood elevation (BFE). Proof that this requirement has been met is usually in the form of a FEMA Elevation Certificate, however other forms of documentation may be accepted (see RD Instruction 1970-F).

Additionally, for applications to purchase, construct, or substantially rehabilitate a dwelling in a floodplain, utilities should be flood-proofed or located above the BFE. If the dwelling does not use public utilities, the domestic well must be a minimum of 50 feet from the septic drainfield (or more, depending on local or state codes). For minor repairs, these requirements are not applicable if the dwelling existed prior to the publication of the first FEMA flood map for that location. In accordance with RD Instruction 1970-F, section 1970.256(b) and 1970.261(b), if the property is within a floodplain, the Agency approval official is responsible for notifying the applicant about the hazards associated with occupancy of locations within a floodplain at the earliest possible point in the Agency's decision-making process. A template notice can be found in RD Instruction 1970-F, Exhibit B, Attachment 2.

C. Responsibility for Environmental Reviews

The Loan Originator is responsible for ensuring that the appropriate level of environmental review has been completed prior to the commitment of federal funds. This includes the assembly and analysis of relevant material, the development and analysis of practical alternatives and mitigation measures (as appropriate), and the development of recommendations regarding environmental impacts and environmental compliance. Applicants may be requested to provide information needed for the analysis.

If the appraiser marks “No” to the question, “Are there any adverse site conditions or external factors (easements, encroachments, environmental conditions, land uses, etc.)?” under the site portion of the Uniform Residential Appraisal Report, the Field Office is not required to conduct a site inspection in order to complete the environment review. If the appraiser answers in the affirmative, a qualified Rural Development official must conduct a site inspection as part of the environmental review process.

The Loan Approval Official will use the environmental review documents and, as appropriate, the recommendations of the State Environmental Coordinator (SEC), to make the Agency’s final decision regarding an environmental impact determination and compliance with environmental requirements, as well as flood insurance requirements. For Categorical Exclusions without an ER, this decision is evidenced by the completion of RD Instruction 1970-B, Exhibit D, which will be signed by the form’s preparer and the Loan Approval Official (if these are the same person, both applicable signatory lines should be signed). For Categorical Exclusions with an ER, the SEC must review the environmental documentation and sign the Exhibit D in addition to the preparer and Loan Approval Official. The Agency’s decision for EAs is documented by the signing of the Finding of No Significant Impact (FONSI) by the Loan Approval Official; after reviewing the EA, the SEC will assist with the FONSI’s preparation.

SECs are available to provide technical assistance and guidance. They also are available to assist in problem resolution on environmental issues. Environmental questions or problems should be referred promptly to the SEC. Furthermore, SECs will review and sign off on all Categorical Exclusions with an ER and EAs.

D. Noise Abatement

If a site is located near a major source of noise, the appraiser should consider this in their appraisal report. The information should be made available to the applicant, who may not be aware of the problem. The applicant, once informed, may wish to look for a different site or to consider some method of noise reduction. The Loan Approval Official should consult with the State Architect and the SEC on any proposals for noise reduction.

5.9 MANAGEMENT OF HAZARDOUS SUBSTANCES

The Agency must consider the management of hazardous substances, including hazardous wastes and petroleum products, from two perspectives: liability under hazardous substance and hazardous waste laws, and the economic risks posed by the presence of hazardous substances. Both of these issues are addressed through due diligence. Due diligence is the process of inquiring into the environmental condition of real estate, in the context of a real estate transaction, to determine the presence of contamination from hazardous substances, including hazardous wastes and petroleum products, and to determine what impact such contamination may have on the market value of the property.

Appraisers are required to notify the Agency if they observe contamination from hazardous substances, or if information from research or interviews with individuals knowledgeable about the property indicates that the property might contain hazardous substances.

If an appraiser notices that a property may contain hazardous substances, or if the Agency has any other reason to suspect that a property is contaminated, the Loan Approval Official must initiate a due diligence review by completing Attachment 5-B, Single Family Housing Site Checklist. If the completed Attachment 5-B raises any concerns, it must be sent to the SEC for further evaluation and guidance. The SEC will contact a National Office Program Support Staff Environmental Protection Specialist to determine what further steps will need to be taken.

SECTION 4: SECURITY REQUIREMENTS

5.10 ACCEPTABLE MORTGAGE

Generally, there should be no non-Agency liens on the property at the time of or immediately after closing, unless they are part of a formal leveraging strategy, or the Agency loan is for essential repairs and a senior lien secures an affordable non-Agency loan. However, the Loan Originator may accept prior or junior liens as long as: (1) the lien will not interfere with the purpose or repayment of the Agency loan; (2) the total value of all liens on the property is less than or equal to the property's market value; and (3) the prior lien does not contain provisions that may jeopardize the Agency's security position or the applicant's ability to repay the loan.

5.11 OWNERSHIP REQUIREMENTS [7 CFR 3550.58]

If the applicant defaults on the loan, the Agency must be able to foreclose on the property to settle the debt. Therefore, after the loan is closed, the applicant must have an ownership interest in the property that is acceptable to the Agency.

A. Responsibilities

In preparation for closing, the closing agent selected by the applicant must review the ownership interest the applicant will have to ensure that it meets the requirements established by the Agency in RD Instruction 1927-B. The closing agent must also ensure that the form of ownership conforms with the requirements of relevant State laws. After closing, the Loan Originator should compare the deed of trust or mortgage with the title opinion to assess lien priority, to verify recordation of the date and time, and to ensure that the loan closing instructions have been followed.



B. Acceptable Forms of Ownership

Several forms of ownership are acceptable to the Agency, but in all cases the applicant's ownership interest must be carefully documented.



1. Fee-Simple Ownership

The most common form of ownership is fee-simple ownership, under which the borrower holds a fully marketable title to the property. This title is evidenced by a deed that vests full interest in the property to the borrower.

Land Purchase Contracts

When the ownership interest is by virtue of a land purchase contract, the ownership interest must be converted to a deed/mortgage interest prior to closing the loan.

Paragraph 5.11 Ownership Requirements [7 CFR 3550.58]

2. Secure Leasehold Interest

Although fee-simple ownership is preferable, the borrower may have a secure leasehold interest in the property. Leasehold interests are acceptable only when all of the following conditions apply.

- The applicant must be unable to obtain fee-simple title to the property, and the rent charged for the lease must not exceed the rate being paid for comparable leases.
- The lessor must own the fee-simple title (this provision does not apply to a lessor who is an American Indian possessing a leasehold interest on tribal allotted or trust land).
- Neither the leasehold nor the fee-simple title may be subject to a prior lien unless the Agency authorizes acceptance of the prior lien before loan approval. The amount of the Agency's loan, plus any prior liens, must not exceed the market value of the property including the value of the leasehold.
- The lease must be in writing, and must contain **all** of the following provisions:
 - ◇ The lessor's consent to allow the Agency's mortgage;
 - ◇ The right of the Agency to foreclose and sell the property without restrictions that adversely affect the market value of the property;
 - ◇ The right of the Agency to bid at a foreclosure sale or to accept voluntary conveyance of the property in lieu of foreclosure;
 - ◇ The right of the Agency to occupy, sublet, or sell the property should the leasehold be acquired through foreclosure, voluntary conveyance, or abandonment;
 - ◇ The right of the applicant to transfer the leasehold and Agency mortgage to an eligible transferee who will assume the Agency's debt, if the borrower defaults or is unable to continue with the lease;
 - ◇ Advance written notice of at least 90 days to the Agency of the lessor's intention to cancel or terminate the lease;

- ◇ Provisions are negotiated with the lessor before the leasehold interest is approved regarding the Agency's obligation to satisfy unpaid rent or other charges accrued before or during the time the Agency has possession of or title to the leasehold. During negotiations, the Loan Originator should consider the length of time it will take to foreclose, how much the Agency would be responsible for, and when the Agency would have to pay;
 - ◇ Provisions to ensure fair compensation to the borrower for any part of the property taken by condemnation; and
 - ◇ The unexpired term of the lease must be at least 150 percent of the term of the mortgage, unless the loan is guaranteed by a public authority, Indian Tribe, or Indian Housing Authority. For guaranteed loans, the unexpired term of the lease must be at least 2 years longer than the mortgage term. In no case may the unexpired term of the lease be less than 25 years.
- The language, specified in Attachment 5-C, must be inserted in the mortgage.

3. Life Estate Interest

The applicant may hold a life estate interest with the rights of present possession, control, and beneficial use of the property. All persons with any remainder interests in the property must be signatories to the mortgage, except as described in Paragraph 5.11 B.4.

4. Undivided Interest

To be eligible for a loan if an applicant only has an undivided interest in the land, co-owners must also be unable to provide or obtain the financing for the improvements, either individually or jointly with the applicant. Generally, all legally competent co-owners must sign the mortgage. However, when one or more of the co-owners cannot be located, are not legally competent (and there is no legal representative who can sign the mortgage), or if the ownership interests are divided among so many co-owners that it is not practical to mortgage all of their interests, their interests may be excluded from the security requirements, as long as their interests do not exceed 50 percent of the property's value.

The loan amount shall be limited based on the percentage of the market value that is proportional to the percentage of the property interest owned by all persons signing the mortgage. The determination of market value should take into account any adverse effects that might result from selling mortgaged interests separately from nonmortgaged interests.

Paragraph 5.11 Ownership Requirements [7 CFR 3550.58]

Only the State Director may approve the exclusion of co-owners' interests. The Loan Originator or the Loan Approval Official should prepare a recommendation for the State Director's review. The memo should include a full statement of ownership and the reasons for the proposed exclusion.

5. Possessory Rights

Possessory rights on an American Indian reservation or State-owned land, and the interest of an American Indian in land held in trust or deeds containing restrictions against alienation are acceptable forms of interest as long as the trust or restricted land will remain in trust or restricted status.

<p>Tribal Allotted or Trust Land</p> <p>Tribal allotted or trust land must remain in trust or restricted status. In these cases, the mortgage, deed of trust, leasehold interest or other security interest must be approved by the Secretary of the Interior. Each State should issue a supplement to give guidance about making loans under these circumstances.</p> 

5.12 EXCEPTIONS TO THE AGENCY'S SECURITY REQUIREMENTS

Exceptions may be made under the circumstances described below.

A. Unsecured (Note Only) Section 502 Loans

A loan of less than \$7,500 that is scheduled for repayment within 10 years from the date of the loan may be secured by a promissory note alone as long as the applicant:

- Has a credit history that indicates an ability and willingness to pay the debt when due; **and,**
- Has principal, interest, taxes, and insurance (PITI) and total debt (TD) ratios that indicate that the applicant will have sufficient income to meet all obligations.

In order to verify the above conditions, the Loan Originator should review the applicant's credit history as described in Section 3 of Chapter 4. The applicant cannot receive payment subsidy on an unsecured loan.

B. Best Mortgage Obtainable

Except for unsecured loans described in Paragraph 5.12 A., loans must be secured by a mortgage. In addition, title clearance and the use of legal services as required by RD Instruction 1927-B are necessary, unless the total RHS indebtedness is less than \$7,500 or the loan is a subsequent loan made for minimal essential repairs necessary to protect the Government's interest.



SECTION 5: APPRAISALS [7 CFR 3550.62]

5.13 OVERVIEW

High-quality appraisals are key to ensuring that the Agency obtains adequate security for its loans. This section provides guidance about the types of appraisals that may be needed, when appraisals are required, how they are ordered, and how they must be reviewed.

5.14 REQUIREMENTS FOR APPRAISALS

Appraisals must meet the following requirements:

- **Qualified Appraiser:** Direct Single Family Housing appraisal assignments will be completed by a State-certified or licensed appraiser. Contract appraisers must be certified or licensed (or hold a “Temporary Practice Permit” issued by the respective State for a specific period of time and for a specific property), in the State in which the subject property is located. When using a contract appraiser, the Agency will contract with qualified appraisers that are active on the Appraisal Subcommittee website (www.asc.gov). However, when a contract appraiser is not available at an acceptable cost or is unable to complete an appraisal timely, a qualified Agency appraiser may conduct the appraisal. For credit transactions that are \$100,000 or greater, Agency appraiser must possess the same qualifications as those required for contract appraisers, except that an Agency appraiser is only required to be certified in one State or Territory to perform real property appraisal duties as a Federal employee in all States and territories.
- **Standards:** All appraisals must be consistent with the current edition of the Uniform Standards of Professional Appraisal Practice (USPAP) available at www.appraisalfoundation.org and comply with Agency appraisal requirements, as described in this chapter and in 7 CFR 3550.62(a). All appraisals must include a Market Condition Addendum (Form FNMA 1004MC).
- **Timelines:** Depending on the State, appraisals are conducted by either in-house Agency staff, or private appraisers under contract to the Agency. In-house appraisals are to be completed within 7 calendar days of receiving the appraisal order. Contract appraisals are to be completed within the time specified in the contract or Blanket Purchase Agreement (BPA). **Nondiscrimination:** The appraiser may not use factors that are discriminatory on the basis of race, color, religion, sex, disability, familial status, or national origin in conducting the appraisal and valuing the property.

- **Use of a Third Party Appraisal:** The Agency may only use an appraisal for which it did not contract for when the appraisal was obtained from a leveraged lender involved in the transaction and that lender is financing at least 20 percent of the transaction with loan funds or 15 percent if entirely a grant, forgivable loan or deferred loan. The Agency reviewer should be especially diligent in reviewing these appraisals to ensure they meet USPAP and Agency appraisal requirements and the expected intended use is the same as the intended use reported in the appraisal. The Agency is not required to use any appraisal that it did not contract for directly.

5.15 TYPES OF VALUES

Depending on the purpose of the proposed loan, an appraiser will either give the estimated value of the property in its current condition (the “as is” value) or, based on construction plans and specifications, give the estimated value of the property after development (the “as improved” value). The Loan Originator will determine the required type of value. The circumstances under which each type of value is required are as follows:

- **As improved value.** Loans for planned new construction or rehabilitation require an estimate of the as improved value.
- **As is value.** Loans for existing dwellings (including a new construction dwelling that has been completed at the time of appraisal) requiring no repairs require an estimate of as-is value. As-is value appraisals may also be needed to support a loan servicing action or to determine a disposition plan for Real Estate Owned (REO) property.

5.16 APPRAISAL METHODOLOGY

Real estate appraisers make judgments about a property’s value based on many factors, including location, market conditions, construction quality, and amenities. Single Family Housing Appraisals require one, two, or three approaches to value, as described below, depending on the specific assignment.

- **Sales comparison approach.** Under this method, the appraiser uses the recent sales data of properties that are comparable in location and characteristics to the security property in order to estimate a market value for the property.
- **Cost approach.** Under this method, the appraiser derives an estimate of value using replacement cost estimates for the improvements, less depreciation and an estimate of the site value. If applicable, the appraiser will identify the source of cost estimates, such as Marshall and Swift, used in the cost approach.

5.16 Appraisal Methodology

The methodology used to estimate depreciation and an analysis may be stated in the report. This method is required for a dwelling to be constructed, or a dwelling that is less than one year old. The remaining economic life must be stated for all properties.

- **Income Approach.** Under this method the appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways, direct capitalization or yield capitalization. This method may only be used for Agency Non-Program Real Estate Owned Properties.

The appraisal must be completed using Fannie Mae Form 1004/Freddie Mac Form 70, “Uniform Residential Appraisal Report,” for all one-unit, single family dwellings; Fannie Mae Form 1004C/Freddie Mac Form 70B, “Manufactured Home Appraisal Report,” for all manufactured homes; or Fannie Mae Form 1073/Freddie Mac Form 465, “Individual Condominium Unit Appraisal Report” for all individual condominium units.

5.17 ORDERING APPRAISALS

A. When Appraisals Are Needed

An appraisal is always required if the RHS loan is \$7,500 or more and the Agency’s debt plus prior liens against the property will exceed \$15,000. (Another lender’s appraisal is acceptable when the loan is part of a leveraging strategy under certain circumstances as described in Chapter 10.) If the total indebtedness against the property is less than or equal to \$15,000, an appraisal is not required if the Loan Originator is confident that the property has sufficient value to serve as adequate security. Total indebtedness includes any prior liens on the property. The Loan Originator should include a statement of the property’s value in the case file whenever an appraisal is not completed.

For subsequent loans, no appraisal is required if the loan is less than \$7,500 and is for minimal essential repairs needed to ensure that the dwelling is decent, safe, and sanitary. An appraisal is not required when a subsequent loan is made to protect the Government’s interest, regardless of the amount. The Loan Originator must include a statement of the estimated property value in the case file. If the subsequent loan is for \$7,500 or more, no appraisal is needed unless the property will be taken as security and at least 1 of the following conditions exists:

- The latest appraisal report of the real estate is over 2 years old;
- The physical characteristics of the property have changed significantly;

- The economic characteristics of the market have changed significantly;
- The Loan Originator is uncertain of the adequacy of the security; or
- The subsequent loan is in connection with a transfer of an existing loan.

B. Program Responsibilities

In accordance with RD Instruction 2024-A, contract services shall not involve decision making or other inherently governmental functions. Accordingly, prior to ordering an appraisal on the subject property, the Field Office will ensure that the property is located in an eligible area (which should be accomplished by entering the property's address in the Agency's property eligibility website); and review the sales contract and related materials (such as the property's Multiple Listing Service sheet, tax bills, etc.) to confirm that the dwelling and/or site appear to comply with the Agency's regulations and guidance.

If appropriate, the Field Office will also prepare a list of repairs needed to ensure the property meets the Agency's regulations and guidance. This list of repairs, which is based off of the inspection reports prepared by State-licensed inspectors or qualified, third-party inspectors hired by the applicant (refer to Paragraph 5.7 A.), will be provided to the appraiser for the purpose of obtaining an "as-improved" value.

C. Required Information

When the Loan Originator or Staff Appraiser orders an appraisal, the appraiser should be provided with: (1) a copy of the option or sales agreement, with a legal description of the property; (2) certified building plans and specifications, and repair estimates, if applicable; (3) existing surveys; (4) a copy of the existing title; and (5) tax bills or assessments.

The applicant has until the expiration of their Certificate of Eligibility, as described in Paragraph 4.25, to present this information to the Loan Originator. Originals of this information should be kept in the case file, with copies provided to the appraiser.

D. Appraisal Disputes

In situations where an applicant disputes the appraisal, the Loan Originator will send Handbook Letter 17 (3550), Adverse Decision Involving an Appraisal. Handbook Letter 17 informs the applicant of their opportunity to review the appraisal with the Local Office. It also explains the applicant's right to a State Director review of the appraisal.

If the State Director's review concurs with the original appraisal, the Loan Originator will send Handbook Letter 18 (3550), Unfavorable Decision after State Director Review of an Appraisal, with the appropriate attachment, to the applicant.

5.18 SELECTING AN APPRAISER

When a contract appraiser is to perform the appraisal, the contract appraiser must be selected following Agency contracting requirements. This may be achieved using a BPA or a Request for Contract services.

A. Blanket Purchase Agreement

A BPA allows the Agency to maintain a list of eligible contractors that can be engaged at any time. Regarding the BPA list of approved appraisers:

- The Contracting Officer (CO) should develop a BPA list in accordance with Agency contracting procedures.
- When a contractor is needed, the Staff Appraiser or Loan Originator can contact an appraiser on the BPA list. At this time, the Staff appraiser or Designated Employee should:
 - ❖ Confirm that the contractor's price for the appraisal is within an acceptable range (based on experience with local costs).
 - ❖ Confirm that the appraiser can complete the appraisal within the required timeframe.
 - ❖ If the appraiser cannot meet these two criteria, the next appraiser on the list should be contacted, and the process should be repeated. When using the BPA list, appraisal staff or designated employee should make full use of the entire list. It is a good practice to rotate through the list to offer different appraisers the chance to perform the contract appraisal each time an appraisal is needed.

B. Request for Contract Services

The Agency may obtain appraisal services through a request for contract services. In this case, contracting staff will solicit bids for services and select the lowest responsive bid from a qualified and competent appraiser in accordance with standard Agency contracting procedures. The CO will use the Statement of Work (SOW) provided in Attachment 5-A as the basis for the bid solicitation and the contract.

Once a contractor is selected, the CO or Contracting Officer Representative (COR) should arrange a post-award meeting with the contractor as described in Paragraph 5.19 A.

5.19 WORKING WITH THE APPRAISER

A. Post-Award Conference with the Appraiser

Before authorizing the contractor to start work, the COR should discuss the contract SOW with the appraiser to ensure that the work to be performed is well understood. This may be done by telephone or in a face-to-face meeting. Following the discussion, the COR must provide the appraiser with the following items:

- Statement of Work. The SOW should include all the information that the appraiser needs to determine the scope of work of the appraisal assignment. This includes information on the purpose and intended use of the appraisal as well as all pertinent property information. See paragraph B below for a complete description of the information included in the SOW.
- List of repairs if an “as-improved” value is requested.
- Agency appraisal regulations and instructions. The appraiser should be provided with instructions for accessing, via the internet, 7 CFR Part 3550, and this chapter of the handbook.

B. The Statement of Work

At a minimum the SOW should describe the following:

- The intended use and intended users of the appraisal.
- The types of value required.
- Required submissions. The SOW should specify the number of copies, the address(es) where the reports should be sent, and the delivery deadline. Acceptance of electronic submissions will be determined by the State Director.

5.20 APPRAISER RESPONSIBILITIES

The appraiser must provide the required estimates of value on the appropriate form. The appraiser may also be asked to provide a list of repairs deemed essential for the property to be made decent, safe, and sanitary.

Paragraph 5.20 Appraiser Responsibilities

If an appraiser observes potential contamination from hazardous substances, hazardous wastes, or petroleum products on the property, or obtains other information about such contamination, that information should be provided to the Agency together with an indication of its potential impact on the value of the property. The Loan Originator must initiate the due diligence process by completing Attachment 5-B. The completed Attachment 5-B must be sent promptly to the SEC for further evaluation and guidance.

5.21 REVIEWING APPRAISALS

Appraisals will be reviewed through a combination of administrative reviews and technical reviews. Administrative reviews can be completed by Agency staff trained to do so while technical reviews must be completed by certified Agency appraisers. A technical review for loan origination is an inherently governmental function and must be completed by an Agency appraiser. If an appraisal is found to be unacceptable by any review, other than a post review, the original appraiser can make corrections or a new appraisal can be ordered. The appraisal report must be acceptable before the loan-making process can continue.

A. Administrative Review

Administrative reviews are performed by the Loan Approval Official. They are to be performed on all contract appraisals and the contract appraiser's invoice cannot be paid until the appraisal review is complete. This review determines if there are inconsistencies in the appraisal report that warrant a future review of the property and the sales contract prior to loan approval, or if a technical review should be conducted by the staff appraiser prior to paying the appraiser's invoice. Indicators that a technical review may be required consist of the following: (1) Photos and maps are not consistent with the information provided in the appraisal; (2) Large variances in actual and effective age are not supported; (3) Comparables are located outside of the subject's market area or they are superior/inferior to the subject warranting excessive adjustments that are not supported; (4) Sales and Financing concessions are not reported or comparables are not properly adjusted when they are reported; (5) History of the subject property was omitted or not analyzed; and (6) Inconsistent information in the appraisal. Form RD 1922-15, Administrative Appraisal Review for Single Family Housing should be used for this review. The review should be completed as soon as possible, but must be completed within 7 days of receipt of the appraisal.

B. Technical Review

A technical review can be either a field review or a desk review and is performed to determine whether the appraisal is credible within the intended use, was clearly reasoned, followed accepted appraisal techniques and RD requirements and had adequate support for the conclusion of value. Technical reviews are an inherently governmental function and must be performed by Agency certified appraisers. Technical reviews completed by Agency appraisers should be consistent with current USPAP requirements which can be found at www.appraisalfoundation.org.

Field reviews involve on-site visits to the subject property and the comparables while desk reviews are performed in the office. Technical reviews must be completed for the first appraisal conducted by any contract appraiser and for each appraiser that does multiple appraisals in a 12-month period. Additionally, each contract appraiser must be reviewed at least once in a three year period. At the discretion of the Regional Appraisal Staff, additional technical reviews may be ordered if concerns were encountered on the first technical review. In addition to the initial review, technical desk or field reviews will be done in a random, spot-check method established by the State Director for contract appraisals but should be completed on a minimum of 5 percent of the contract appraisals received.

A technical review also may be requested by the Loan Approval Official when concerns are detected by the administrative review. The concerns will be documented on Form RD 1922-15. The Regional Appraisal Staff must determine if the concerns merit a technical review before the appraiser can be paid or the loan approved.

5.22 PAYING FOR APPRAISALS

The Agency will charge a \$475 fee for each loan application that requires an appraisal. Within 3 business days of receiving a completed application, the Loan Originator will provide the applicant with CFPB's standard Loan Estimate, which includes the amount of the appraisal fee.

The Agency may waive the fee for appraisals done for subsequent loans needed to make minimal, essential repairs necessary to protect the Government's interest, or for leveraged loans if a participating lender is obtaining an appraisal that is acceptable to the Agency.

If there is a conditional commitment, the appraisal fee should be paid to the contractor at closing as reimbursement for the cost of the appraisal that was included in the conditional commitment fee.

5.23 APPRAISALS IN REMOTE RURAL AREAS, ON TRIBAL LANDS, OR WHERE THERE IS A LACK OF MARKET ACTIVITY

In remote rural areas, on Tribal lands, or areas with a lack of market activity it may be difficult to obtain adequate comparables to appraise a property. In these areas, the sales comparison approach is not required. Instead, Form 1007, Marshall and Swift Square Foot Appraisal Form must be used. These appraisals may be conducted by Agency staff appraisers or by contract appraisers.

Remote rural areas are identified by the State Director and are defined as areas with all of the following characteristics:

- Scattered population;
- Low density of residences;
- Lack of basic shopping facilities;
- Lack of community and public services and facilities; and
- Lack of comparable sales data.

The results of the cost analysis completed using Form 1007 should be documented on the Uniform Residential Appraisal Report and efforts to obtain comparable market data must be documented in lieu of the sales comparison approach. External depreciation based on the remoteness of the site must not be considered; however, factors that impact the site such as immediate proximity to a feedlot, factory, or other similar considerations should be included. When a market is established in these areas, the Agency will again require complete appraisals.

SECTION 6: MANAGING CONSTRUCTION

This section generally refers to new construction or substantial rehabilitation to a dwelling and where the funds are secured by a deed of trust or mortgage. Typically this work will involve a general contractor who is responsible for supervising and directly paying their subcontractors. Work described in this section is more complex and would commonly take more than 30 days to complete.

5.24 DESIGN

A. Disseminating the Standards

The applicant needs to know the standards the dwelling must meet before the design process begins. The Loan Originator should advise the applicant of the Agency's rehabilitation or construction standards.

The applicant and/or designer should also be provided with Form RD 1924-2, Description of Materials, prior to loan approval. This form may be used by the designer as a basis for preparing specifications. When other suitable specifications are available which will adequately describe the materials, equipment, and fixtures to be used on the job, this form need not be used.

B. Review and Approve the Drawings and Specifications

Once the drawings and specifications are finished, the Loan Originator should review them to ensure that they have been certified as meeting the Agency's minimum standards contained in RD Instruction 1924-A. The plans, specifications, calculations, and any modifications should be certified by the design professional on Form RD 1924-25, Plan Certification, to ensure that the appropriate codes and standards are met. If all applicable requirements are met, the Loan Originator may accept the documents. If they do not meet the applicable requirements, the Loan Originator should inform the applicant and designer, in writing, of the deficiencies or discrepancies. Once these issues are resolved, the Loan Originator should review the drawings and specifications again.



5.25 PREPARING FOR CONSTRUCTION

A. Selecting the Contractor

The applicant should select the contractor who will build or rehabilitate the dwelling. The contractor must have a valid State contractor's license if required in the State, and such license must be documented by the Loan Originator. The Loan Originator must also verify the validity of the license with the appropriate State entity and document the applicant's file. For new construction, the applicant will usually have a contractor in mind. For rehabilitation, the applicant will provide an adequate number of bid(s) from a qualified contractor(s).

Paragraph 5.25 Preparing for Construction

The local office must review the bid(s) obtained to ensure costs are reasonable for the area serviced, the number of bid(s) are sufficient, and clearly identify the work and materials to be furnished. Bids should be solicited based on the developed set of specifications. Detailed specifications must include a complete breakdown on materials and labor and describe the quantity, quality, grades, styles, model numbers, etc.

With the exception of approved manufactured dealer-contractors, the Agency should not maintain a list of approved contractors and an in-depth investigation of a contractor by the Agency is not required unless the surety requirements are triggered and an exception by the State Director is being considered. The need for an in-depth investigation should be rare; refer to RD Instruction 1924-A for further guidance. While a list of approved contractors should not be maintained, the Agency should give the applicant general advice on selecting a contractor (e.g. the benefits of “shopping around”, ask for and check references, check the contractor’s record with the Better Business Bureau, etc.).

B. Pre-Construction Conference

Once the contractor has been selected and the funds have been obligated, the Agency, the applicant, the designer (if applicable), and the contractor should hold a pre-construction conference. The purpose of the conference is to ensure that each party understands their respective roles and responsibilities. The parties should review the drawings and specifications to make sure everyone understands the scope of work, construction/thermal standards, environmental mitigation requirements, materials, inspection, change orders, and payment procedures. In addition, the contractor must 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.

For new construction or rehabilitation, the Loan Originator should provide Exhibits F and G of RD Instruction 1924-A to the contractor at or before the preconstruction conference. These exhibits give details on the completion assurance (surety) that the contractor can elect to obtain. The Loan Originator also should provide the “Equal Employment Is The Law” poster, which explains the requirements of applicable fair labor standard laws to the contractor to post at the work site.



The Loan Originator should prepare an agenda before the meeting and take minutes during the meeting. All parties should review and sign these minutes to indicate their approval. The Loan Originator may use Form RD 1924-16, Record of Pre-Construction Conference, or Attachment 12-F as a basis for preparing the agenda and recording the minutes.

To prepare for loan closing, the contractor and applicant should undertake any pre-construction activities necessary to ensure that construction can begin shortly after closing. This might include getting building permits and lining up material suppliers.

C. Construction Contract

For new construction, a written construction contract is always required. Written contracts are strongly recommended for all rehabilitation-related construction, and are required if there is construction work involved that would affect the dwelling's structural integrity (otherwise, a rehabilitation plan with cost estimates and bid specifications may be used). The applicant and contractor must sign the construction contract no later than at the pre-construction conference.

The Agency is not a party to this contract; however, the Agency provides many forms that should be used, including:

- Form RD 1924-6, Construction Contract;
- Form RD 400-1, Equal Opportunity Agreement;
- Form RD 400-3, Notice to Contractors and Applicants; and
- Form RD 400-6, Compliance Statement.

D. Department of Labor Notification

For contracts greater than \$10,000, the Loan Originator must prepare a letter within 10 days after the contract is signed to notify the U.S. Department of Labor (DOL) of the execution. The letter notifies the U.S. Department of Labor of the contract period and amount, and the contractor's name, address, and employer identification number. Exhibit C of RD Instruction 1901-E provides a format for the Loan Originator to use. To obtain the most current DOL address, visit the DOL website



www.dol.gov/ofccp/regs/compliance/preaward/cnstnote.htm

5.26 CONSTRUCTION PERIOD


Once the construction contract is in place, construction can begin. All construction work should be inspected periodically in accordance with RD Instruction 1924-A to ensure that the work is done properly. When Agency staff perform an inspection, Form RD 1924-12 Inspection Report should be retained in the borrower's case file. The borrower should attend all inspections and be available to sign checks if payment is approved for the completed work.

Paragraph 5.26 Construction Period

A. Qualified Inspector

The borrower will be responsible for making inspections necessary to protect their interest. Agency inspections are to protect the Agency’s interest and to ensure the

completion of construction or rehabilitation without implication of duty or obligation to the borrower. The final inspection can be conducted by the Loan Approval Official/Originator, or by a qualified third party. Inspections fees from third parties, like building permits, are eligible loan purposes. The inspector must be qualified to perform a construction inspection. A qualified third party includes, a local building official, an inspector certified by a nationally recognized home inspection entity, or a State-licensed inspector who inspects property according to the [International Code Council](#) (ICC). The ICC publishes the International Building Codes used by most of the jurisdictions within the United States. An appraiser may perform a completion valuation inspection but this report is not sufficient for the Agency’s purpose without other supporting documentation such as a certificate of occupancy, or a final inspection from a local building official or other qualified third party.



**Borrower’s Responsibility
for Inspection**

The borrower is responsible for making inspections to protect his or her interest. The Agency’s inspections are not intended to assure the borrower that the house is built according to the approved plans and specifications.

A qualified third party inspector should be able to execute each of the following, as applicable:


- Inspecting for conformity with development plans and building codes, with written reports, at footing, framing, and final project phases.
- Preparation of additional inspection reports to include an analysis of the project’s progress and quality of workmanship. Reports may include notes from teleconferences, inspection reports, video and/or photos.
- Issue specific and critical activity reports, video or photos of apparent errors or problems with workmanship.
- Document and evaluate any expressed opinion, fact, and observation by the owner, third party inspector, or building/code official.
- Document discussions with the owner, inspector(s) and contractor.

B. Periodic Inspections

If inspections are conducted by a third party, the inspector should submit periodic inspection reports to the Agency. The number and timing of inspections varies by the type and extent of work performed. When concerns are raised by the inspector, contractor, borrower, or Agency staff, clear communication between the parties is critical to successful completion of the work.

- **New construction.** Inspections may be conducted as necessary, but a minimum of 3 generally are required:
 - (1) footings while under construction;
 - (2) after the dwelling is framed-in; and
 - (3) a final inspection once all work is complete
- **Substantial rehabilitation.** A new addition, remodeling, moving walls, changing the foundation, or structural integrity of the home are examples of substantial rehabilitation. It is more complex than simple repairs and oftentimes affects multiple major components of the dwelling. This type of work generally requires permits and inspections by the local building department. All rehabilitation work must be inspected, but the Agency does not prescribe specific guidelines for inspecting rehabilitation work that does not involve new construction. A qualified third party inspector may be used and should inspect at intervals that are appropriate for the complexity of the work. The Loan Originator may also rely on current media (photos, video) and third party inspection reports, which are quickly and easily transmitted, to render an effective remote assessment for compliance determinations.
- **Final Inspection:** The following documents should be submitted prior to final payment and the Loan Originator should address the acceptability of the documentation and the completed repairs in the running record:
 - ◇ The forms listed in Paragraph 5.27.
 - ◇ Borrower’s written acceptance of the completed work.
 - ◇ Photos of the completed work as provided by the borrower and/or contractor.
 - ◇ A copy of a third party inspection (if applicable).
- **Environmental requirements.** If environmental mitigation measures are required, the Agency’s inspector should follow up on the implementation of such measures and document compliance on Form RD 1924-12. Noncompliance with environmental mitigation measures must be reported promptly to the Loan Originator and the SEC.

New Dwellings

 If the borrower is purchasing a new dwelling, the Agency may accept the dwelling as “in good, sound, and sanitary” as long as the contractor provides a Certificate of Occupancy or other documents deemed acceptable by the State Office. The certificate alone, however, is not sufficient to justify 100 percent loan-to-value.

Paragraph 5.26 Construction Period

C. Partial Payments

Partial payments for work completed can be issued after each inspection. The contractor and Loan Originator establish a draw schedule before loan closing. This schedule identifies when partial payments may be made, based on the amount of work completed. The amount of the payment is typically based on the value of the work, according to Exhibit A of RD Instruction 1924-A, or the Marshall and Swift guidelines. To ensure that all work will be satisfactorily completed, 40 percent (or a lesser percent if required by state law) of each payment request is typically withheld until all of the work items established in the draw schedule are complete and final payment is made, as described in Paragraph 5.27. The amount withheld can be reduced to 10 percent if the contractor obtains a Surety Bond, Performance Bond, or Payment Bond, but this is extremely rare.

Example - Partial Payments

A contractor submits a payment request for \$25,000 for work completed. The loan official prepares a payment for \$15,000 (60 percent of the request), and withholds \$10,000 (40 percent).



D. Changes During Construction

If changes to the approved drawings and specifications are required during construction, the applicant and contractor must sign Form RD 1924-7, Contract Change Order. All modifications must be certified on Form RD 1924-25, Plan Certification, if the modification is regulated by the applicable development standard. Before signing it, the Loan Approval Official must review and sign the change order to ensure that the change fits within the approved loan amount and the funds are being used for an eligible loan purpose.

If the change order does not fit within the approved loan amount, several courses of action are possible:

- If the change is necessary and the borrower has repayment ability, the Agency may make a subsequent loan for the amount required to pay for the change;
- The scope of work may be scaled back to accommodate the change;
- The Agency may increase the loan amount if it can be supported by the appraisal, the cost of the property remains below the applicable area loan limit, and the borrower has repayment ability; or
- The borrower may be required to provide additional cash.

The environmental review for the project must be amended if there are changes to plan and specifications during construction (with or without the provision of additional financial assistance), which will alter the purpose, operation, location, or design of the project as originally approved.

5.27 CONSTRUCTION CLOSEOUT

Once construction or rehabilitation work is satisfactorily completed, the Agency will make final payment to the contractor. Before that can occur, the Loan Originator must ensure that the work has been done properly and that no one will make any claims against the property (such as dissatisfied subcontractors). The Agency provides several forms to help the Loan Originator close out the construction process, as listed below.

- **Certificate of Contractor's Release.** Form RD 1924-9, Certificate of Contractor's Release must be signed by the contractor; it certifies that the work has been completed according to the drawings and specifications and the Agency's standards.
- **Release by Claimants.** The contractor must have each subcontractor used during construction sign Form RD 1924-10, Release by Claimants. It certifies that the contractor has paid each subcontractor and that there are no outstanding claims against the property for work performed.
- **Builder's warranty.** A warranty is a guarantee of the quality of work or materials. The Agency must have a copy of 1 of the 2 acceptable forms of builder's warranties as listed below (the applicant keeps the original).
 - ◇ Form RD 1924-19, Builder's Warranty is a 1-year warranty provided to the borrower by the contractor after the construction work has been accepted by the borrower and the Agency. A builder's warranty is issued for new construction (or rehabilitation involving construction) that has had appropriate periodic inspections conducted by the Agency (or third party). The warranty guarantees that the builder will repair or replace any defects in materials or construction that occur within 1 year from the date of acceptance. CSC will be responsible for notifying the borrower of the expiration of the builder's warranty within eleven months of acceptance of the final inspection.



- ◇ An insured 10-year warranty, as described in Exhibit L of RD Instruction 1924-A, is an insurance policy issued by a third party. It is purchased by the builder and insures the borrower against builder defaults and/or major structural defects. This policy is typically used when the borrower is purchasing an existing, newly constructed dwelling and the Agency does not have acceptable documentation of construction quality.
- **Other documentation.** The Agency should maintain the following documentation, if applicable:
 - ◇ Certificate of Occupancy (in some localities, a certificate of occupancy from the local authority is required before a new or renovated structure may be occupied);
 - ◇ Copies of building permits;
 - ◇ Form RD 1924-25, Plan Certification;
 - ◇ Certifications regarding the adequacy of all systems, as described in Paragraph 5.7 A.; and
 - ◇ Additional certifications and warranties, including insulation, carpet, major equipment and appliances.
 - ◇ Thirty days after the final inspection and issuance of the Builder's Warranty, the Loan Originator will send Guide Letter 1924-1 of RD Instruction 1924-F informing the borrower that financial assistance may be available to them under the Compensation for Construction Defects Program.

5.28 SPECIAL SITUATIONS

A. Funds Remaining After Completion

When all planned construction or rehabilitation work has been completed, remaining loan funds may be used for any additional authorized loan purposes agreed upon by the applicant and the Agency. The Loan Originator must document the purposes for which the funds disbursed to the borrower will be used. The Loan Originator should adjust the development plan accordingly. Once the work is complete, the Loan Originator should maintain documentation of the work performed, such as invoices and receipts for materials, equipment or supplies. If no agreement can be reached, the Agency should apply the funds to the borrower's outstanding principal balance.

B. Construction Work that Cannot be Completed

If construction or rehabilitation work cannot be completed because the contractor is unable or unwilling to do so, and the applicant is unable to obtain another contractor (even with the Agency's assistance), funds should be applied to reduce the borrower's principal balance.

C. Deceased Borrowers

If a borrower dies before funds are disbursed for completed construction or rehabilitation work, the Loan Originator may authorize payment for work completed when there is written evidence (such as a letter) that the work was accepted as complete and satisfactory by the borrower or an authorized representative, and an authorized Agency representative has inspected the work and found it satisfactory. The authorized representative can endorse the check on behalf of the deceased borrower. If there is no authorized representative or the contractor files a mechanics lien, advice from the Office of the General Counsel (OGC) should be sought to ensure the Agency's interests are protected.

D. Compensation for Construction Defects

RD Instruction 1924-F defines a newly constructed dwelling. The Government may pay for major defects in dwelling construction that are not repaired adequately by the builder (such defects are usually the result of poor workmanship and the contractor refuses to repair the defect or the repairs are inadequate) only in dwellings that meet the eligibility requirements. To be eligible, the borrower must submit a claim to the Field Office within 18 months after the date the borrower signs the final inspection report. Guidance on how to notify borrowers of this policy, as well as instructions on how to implement the policy, can be found in RD Instruction 1924-F. This option should only be used as a last resort after all other actions to correct the defects have failed.



ATTACHMENT 5-A

**STATEMENT OF WORK (SOW) FOR APPRAISAL SERVICES AND
APPRAISAL INSTRUCTIONS SINGLE FAMILY HOUSING
RESIDENTIAL PROPERTY**

BACKGROUND: USDA Rural Development (RD) provides direct loans to eligible applicants for single family housing (SFH) residential property. To support this program, RD requires qualified appraisers to provide appraisal services, in accordance with 7 Code of Federal Regulations (CFR) Part 3550, at <https://www.rd.usda.gov/files/3550appendix01.pdf>.

OBJECTIVE: High quality appraisals to determine market value of SFH residential properties are key to ensuring the Agency obtains adequate security for its loans.

1. REQUIREMENTS FOR APPRAISALS:

- A. The appraiser(s) signing the appraisal **must** be currently licensed in the state where the subject property is located as a Certified General, Certified Residential, or Licensed Appraiser. The appraiser shall be identified as active on the Appraisal Subcommittee website (www.asc.gov) at time of award and maintain professional errors and omissions insurance coverage in accordance with local and state government requirements. The appraiser shall have the specialized knowledge and experience necessary to be competent to appraise single-family housing.

A trainee may sign the report. If a trainee signs the report, the trainee's registration shall be provided to RD and the qualified appraiser shall sign as Supervisory Appraiser and personally inspect the subject property.

If an appraisal assignment is awarded to a contractor not holding an appraisal license, the awarded contractor may subcontract the appraisal assignment (or any part of it) to a qualified appraiser as outlined above with prior written consent of the RD Contracting Officer (CO). In the event of subcontracting the assignment, the contractor must also adhere to any licensure requirements imposed by any entity having jurisdiction in the state where the property is located.

If required by RD, the appraiser(s) signing the report shall defend the appraisal in court or in the RD appeals process. Cost associated with the defense of the appraisal, when necessary, will be negotiated under a separate purchase order/contract.

Except where noted herein, the contractor or appraiser shall provide all facilities, materials, supplies, tools, equipment, personnel, and travel to accomplish the performance of the requirements of this agreement.

- B. The appraisal must comply with the current edition of the Uniform Standards of Professional Practice (USPAP) and agency requirements as described in Handbook-1-3550 <https://www.rd.usda.gov/files/hb-1-3550.pdf>, Handbook-2-3550, Chapter 2, <https://www.rd.usda.gov/files/3550-2chapter02.pdf>, together with 7 CFR 3550 as applicable to all additional appraisal requirements <https://www.rd.usda.gov/files/3550appendix01.pdf>, and Rural Development Instruction 1922-A, <https://www.rd.usda.gov/files/1922a.pdf>.
- C. All appraisals for RD will provide market value based on the following market value definition used by federally insured financial institutions; Title XI of the Financial Institutions Reform and Recovery Enforcement Act of 1989; Definition of Market Value (12 U.S.C. 1818, 1819):

Definition of Market Value:

Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- (1) Buyer and seller are typically motivated;
 - (2) Both parties are well informed or well advised, and acting in what they consider their own best interests;
 - (3) A reasonable time is allowed for exposure in the open market;
 - (4) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
 - (5) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.
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- D. The appraisal **must** be completed using the most recent version one of the following forms: Fannie Mae Form 1004/Freddie Mac Form 70, "*Uniform Residential Appraisal Report*," for all one-unit, single family dwellings; Fannie Mae Form 1004C/Freddie Mac Form 70B, "*Manufactured Home Appraisal Report*," for all manufactured homes; Fannie Mae Form 1073/Freddie Mac Form 465, "*Individual Condominium Unit Appraisal Report*" for all individual condominium units; Fannie Mae Form 2055/Freddie Mac Form 2055, "*Exterior-Only Inspection Residential Appraisal Report*," for all one-unit, single family dwellings for all properties when there is no visual inspection of the interior required or requested by RD; or Fannie Mae Form 1004D/Freddie Mac Form 442, "*Appraisal Update and/or Completion Report*".

2. **TYPES OF VALUES:**

Depending on the purpose of the appraisal, an appraiser will either determine the estimated market value of the property in its current condition (the "as-is" value) or; determine the estimated market value of the property, based on completion of construction in accordance with plans and specifications, or completion of rehabilitation based on a list of repairs to be considered (the "as-improved" value). <https://www.rd.usda.gov/files/3550-1chapter05.pdf> (*Handbook-1-3550, Chapter 5 (5.15)*)

- A. **As-Improved value (Value Subject to Completion)** - Loans for planned new construction or rehabilitation require an estimate of the "as-improved" value considering all construction / repairs / rehabilitation are complete.
- B. **As-Is value** – Loans for existing dwellings (including a new construction dwelling that has been completed at the time of appraisal) involving no repairs require an as-is value. As-is value appraisals may also be needed to support loan servicing actions or to determine a disposition plan for real estate owned (REO) properties.
- C. **Liquidation Value** – Liquidation appraisals may be needed to support loan foreclosure actions or to determine a disposition plan for real estate owned (REO) properties.

Liquidation Value, is defined as:

The most probable price that a specified interest in property which a property should bring under the following conditions:

1. Consummation of a sale within a short time period;
2. The property is subjected to market conditions prevailing as of the date of valuation ;

3. Both buyer and seller are acting prudently and knowledgeably;
4. The seller is under extreme compulsion to sell;
5. The buyer is typically motivated;
6. Both parties are acting in what they consider to be their best interests;
7. A normal marketing effort is not possible due to the brief exposure time;
8. Payment will be made in cash in US dollars (or the local currency) or in terms of financing arrangements comparable thereto;
9. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal, 6th Ed.*,
(Chicago: Appraisal Institute, 2015):

3. SPECIAL INSTRUCTIONS:

- A. **Loan Servicing Appraisal** - In the event the appraiser is requested to complete an appraisal for a servicing action such as foreclosure, short sale, deed-in-lieu, etc., an appraisal reflecting the market value of the property in its “as-is” condition is necessary for RD use.

Additionally, the appraiser shall provide under the same cover within the addenda, a liquidation value estimate for the subject property, as defined in Item 2, considering a prescribed marketing period of 30 days.

Typically, when a property in foreclosure is occupied, the appraiser will not be required to gain access for a visual inspection of the interior of the subject property. In this case, the appraiser must complete the appraisal report on the Fannie Mae Form 2055/Freddie Mac Form 2055, “*Exterior-Only Inspection Residential Appraisal Report*” unless specifically instructed otherwise by RD. The report must include an extraordinary assumption that there was no visual inspection to the interior and details of the sources being used for the interior components and the assumed condition of the interior.

<https://www.rd.usda.gov/files/3550-1chapter13.pdf> (*Handbook-1-3550, Chapter 13 (13.17) (C) (3)*).

- B. **Subsidy Recapture Appraisal** – The appraiser must complete an as-is market value appraisal.

The appraiser must provide the estimated contributory value of all capital improvements added to the subject property from original date of purchase as specified / indicated by the owner. In the event the appraiser cannot determine from local records what capital improvements may have been added, the appraiser may contact the Authorized Government Representative (AGR) to determine if original loan records detail historic property conditions. Each capital improvement must be noted individually. The appraiser must provide the estimated contributory amount of market value, if any, for each capital improvement item. Items considered to be general maintenance are not considered to be capital improvements. Values shall be supported by market evidence or other valuation methods deemed appropriate by the appraiser. <https://www.rd.usda.gov/files/3550-2chapter02.pdf> (*Handbook-2-3550, Chapter2 (2.23) (8)*)

4. **APPRAISAL METHODOLOGY**

RD requires appraisers to use the following appraisal methods to arrive at a final estimate of value.

- A. **Sales Comparison Approach**: Under this method, the appraiser uses the recent sales prices of properties that are comparable in location and characteristics to the subject property in order to estimate a market value for the property. The appraiser must use at a minimum three (3) comparable closed sales of single family residential properties that sold in the previous 12 month period unless the appraiser provides documentation that such comparable transactions are not available in the area. Comparable sales should be located as close as possible to the subject dwelling, from within the competitive market area, and should be the most comparable available for purposes of valuation.
- B. **Cost Approach**: This method is specified in Handbook 1-3550, Chapter 5, found at this web address, <http://www.rd.usda.gov/files/3550-1chapter05.pdf>. For all proposed construction or all homes having an age of one year or less, RD requires that the appraiser develop, report and reconcile the cost approach to value. On homes over one year of age, the appraiser should determine whether the cost approach is relevant or necessary to determine a valid opinion of market value. This determination must be developed and reported in accordance with the USPAP.

Under this method, the appraiser derives an estimate of value using replacement cost estimates for the improvements, less depreciation of all forms, and then adding an estimate of the site value.

The appraiser will identify the source of cost estimates, such as Marshall and Swift Residential Cost service, local builder's cost data or other national publication for residential costs, used in the cost approach. The methodology used to estimate depreciation must be stated in the report.

Properties in remote rural areas, on tribal lands (American Native and Alaskan Native), areas with a lack of market activity, or those representing a leasehold interest, where it may be difficult to obtain adequate comparable sales to be used for comparative purposes in order to appraise a property. In these areas, the sales comparison approach is not required. Instead, Marshall & Swift Form 1007, Square Foot Appraisal Form, must be used.

Remote rural areas are identified by RD and are defined as areas lacking sufficient market activity and having the following characteristics:

- Scattered population;
- Low density of residences

- C. **Income Approach:** Under this method, the appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate.

The Income Approach method of valuation may only be used for Agency Non-Program Properties such as Real Estate Owned (REO) or Non-Program Loan Assumptions.

USPAP Standards Rule 2-2 (a) (viii) require the appraisal report to summarize the information analyzed, the appraisal methods and techniques employed, and reasoning that supports the analyses, opinions, and conclusions; and also, *exclusion* of the sales comparison approach, cost approach, or income approach must be explained.

5. APPRAISAL REQUIREMENTS:

- A. The appraiser signing the appraisal report must understand and agree that RD is the client, and all reports must be addressed to USDA – Rural Development. The intended user of the report will be RD and any other intended user specified by the agency. Any questions relating to agency requirements of the appraisal assignment should be directed to the AGR and will not be directed to the property owner, real estate agent, builder/contractor, or any other party to the transaction. Communication relating to the assignment, directed
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- B. to the AGR, can come from the appraiser signing the appraisal report or the contractor selected for the assignment and in all instances RD staff will be granted permission to directly communicate with the appraiser signing the report.
- C. The appraisal report must be Uniform Appraisal Dataset (UAD) compliant.
- D. The appraisal must include a completed Fannie Mae Form 1004MC/Freddie Mac 71 “*Market Conditions Addendum.*”
- E. A property contact person will be provided by the AGR and ensure the appraiser has access to the subject property for inspection, unless the property is occupied and the appraisal is for foreclosure purposes. In this situation, a drive-by / exterior only appraisal shall be conducted utilizing the extraordinary assumption the condition of the exterior of the dwelling indicates a similar condition for the interior.

Appraisal fees or turnaround times must not be discussed with the property contact, the property owner or the borrower. The appraiser must notify the AGR immediately if any of the following occurs:

- (1) The appraiser cannot gain adequate access to the property;
 - (2) The appraiser does not receive essential property information in a timely manner;
 - (3) The appraiser has previously appraised or is in the process of appraising the property for another client; or
 - (4) The appraiser has any other potential conflict of interest with respect to the assignment.
- F. If appropriate, the RD field office will prepare a list of repairs needed to insure the property meets the Agency regulations and guidance. The list of repairs, which is based on the inspection reports prepared by State-licensed inspectors or qualified third-party inspectors hired by the applicant will be provided to the appraiser for the purpose of obtaining an “as-improved” value. The list of repairs shall be provided by the RD Office processing the loan application. The appraiser is responsible to take into account the RD required repairs and must include the list of repairs in the addendum of the appraisal report.

- G. The appraiser must provide an opinion of site value supported by a narrative of comparable land sales or other methods used for estimating site value. If support is not included in the appraisal report, a statement by the appraiser that such information is available for review upon request and in the appraiser's work file should be made. The land must be valued as though vacant and ready for development.
- The appraiser must specify whether the site is or can be subdivided into more than one site under existing local zoning ordinances.
 - The appraiser shall discuss the site size and the concluded site value and whether they are typical for the subject market.
 - Any land area of the subject property that is determined by the appraiser as either excess land or surplus land must be addressed and valued accordingly together with documentation and support within the appraisal report for the appraiser's conclusions.
- H. In addition, the appraisal report for a manufactured home must also meet the following requirements:
- (1) Cost Approach: Manufactured Home Appraisal Reports will require a published cost data service such as the Marshall and Swift Residential Cost Guide or the N.A.D.A. Manufactured Housing Appraisal Guide calculations to be included. The appraiser **must** take at least one of those values into consideration in arriving at a value conclusion.
 - (2) Sales Comparison Approach: The appraisal report **must** contain at least two comparable manufactured home sales of similar configuration and quality. The appraiser may use either site-built housing or a different type of factory built housing as the third comparable sale if the appraiser explains the reason for selecting the comparable and support the appropriate adjustments in the appraisal report.
- I. All extraordinary assumptions, hypothetical conditions, and limiting conditions must be clearly and prominently described in a single location near the beginning of the report and in appropriate sections of the appraisal. General assumptions and limiting conditions that reduce the normal scope of appraisal due diligence are not allowed.
- J. The appraiser must keep all information and materials furnished by Rural Development, the owner, and/or property contact regarding the subject property confidential, as required by USPAP and the Gramm-Leach-Bliley Act (also known as the Financial Services Modernization Act of 1999). Any information obtained through public sources is not considered confidential information. Disregard of this privacy requirement will be cause for immediate debarment as a contractor for the federal government.
-

- K. All appraisals must comply with the Fair Housing Amendments Act of 1988. According to the Act, it is unlawful for an appraiser to use factors that are discriminatory on the basis of race, color, religion, sex, disability, familial status, or national origin in the sale, rental, leasing, or financing of housing.
- L. Each appraisal will be submitted electronically, using the industry standard Extensible Markup Language (XML) appraisal data formats Mortgage Industry Standard Maintenance Organization (MISMO), with embedded PDF. Electronic submissions, in the above formats, must be emailed to the AGR as indicated on the confirmed Single Family Appraisal Order Form, Purchase Order, or Task Order (SF 1449).

6. OBSERVED CONDITIONS:

The appraiser is required to make a property inspection to gather data to support the determination of value. Readily observable conditions shall be noted.

- A. The appraiser(s) signing the appraisal report must make at a minimum a personal inspection of the subject (interior and exterior) unless the appraisal is for foreclosure purposed of an occupied dwelling, then an exterior only inspection is required. Also, inspection of all comparable sales (exterior) at a minimum from the street. The appraiser must indicate that the subject's interior and exterior and all comparable sales were personally inspected / observed within the appraisal report. Readily observable conditions must be noted for the following: attic space, crawl space, floors and walls for significant structural failure, moisture damage, or evidence of past fire damage; the roof condition for remaining life; the mechanical systems for operability; and all surfaces for defective paint.
- B. In the event that access to the subject interior and/or exterior cannot be obtained, the appraiser must obtain prior authorization to continue the assignment without inspection. In the event RD authorizes valuation without an inspection, the appraiser must comply with USPAP Standard Rule 1-2 (F) which requires the appraiser to identify any extraordinary assumptions necessary in the assignment. The extraordinary assumption must include detailed disclosure of the assumed condition, the source(s) the extraordinary assumption is based upon and must be clearly labeled as such within the appraisal.

- C. The appraiser must note any suspected environmental hazards, including issues external to the property that could adversely impact the property's value. Examples of environmental hazards would include damaged asbestos-containing building materials, underground storage tanks, chemical leaks, spills, staining of ground surfaces, or on-site waste disposal such as sludge, oil, paints, or chemical residues. If the appraiser observes any suspected environmental hazards, he/she must notify the AGR immediately and refrain from finalizing aspects of the appraisal that could be impacted until resolution of the issue or until instructed otherwise.

- D. The appraiser must notify the AGR. In the event the appraiser observes a deficiency in the property that does not meet minimum property requirements, of decent, safe and sanitary as outlined in HB-1-3550, paragraph 5.7. <https://www.rd.usda.gov/files/hb-1-3550.pdf>

- E. For uninhabited dwellings where utilities are temporarily disconnected, the appraiser will inspect all mechanical systems (heating, plumbing, electrical) for observable conditions, but will not be responsible for reporting operability of these systems. Unless otherwise notified, the appraiser may assume operability for valuation purposes and this must be mentioned as an “extraordinary assumption” in the appraisal report.

- F. Where applicable, appraisers should be familiar with the general provisions of “green properties” in single-family housing. The appraiser shall consider what impact (if any) such factors have on the value of the subject property. Any impact on value should be supported by market evidence.

- G. The Mutual Self-Help Program, is a housing program utilizing supervised labor performed by borrowers as part of the construction process. Construction conducted under the program is supervised by technical experts to assure the quality of its completion.

Appraisal of properties constructed under the Mutual Self-Help Program should consider construction, materials and finish will be completed in a workmanlike and professional manner.

7. DOCUMENTATION:

All approaches to value and the value opinion must be in accordance with acceptable appraisal methodology.

- A. All reports must include a location map (should include proximity to applicable road/highway), flood plain map when the property is located in a designated flood plain, land sales map, sales comparable map, rent comparable map (if applicable), plat map, and building sketch (indicating interior building layout, garages and all external buildings).
- B. For new construction, the appraisal report must include clear original color photographs of the subject's front, rear, street and street easement (private access), if applicable. In all other appraisals colored photographs showing at a minimum the front, rear, and both sides to the exterior. Interior photographs should be included showing each room type, attic and crawl spaces, other non-gross living area (sun rooms, patio/deck/porch/fences) and any noted structural, safety and/or sanitary deficiencies. Additionally, photographs of improvement components that have been upgraded shall be included to document and support the appraiser's determination of the subject's effective age if different than its actual age. A current original photograph of each comparable sale and listing used in the completion of the appraisal is required. If the comparable sale and listing photographs are not available the appraiser should provide, at a minimum, multiple listing service photographs, whenever possible, along with the cited source from which the photographs were obtained.
- C. The bedroom shall meet legal requirements (building code, zoning ordinance, etc.) as mandated by the local county/state government enforcement agency and applicable agency regulations where subject property is located, if any such legal requirements exist.
- D. Verification from third party sources should be noted within the appraisal and maintained as part of the appraisers work file.
- E. The appraisal shall include photographs of all external buildings as well as interior photos of the external buildings (if possible). The external dimensions for each of the external buildings must be included, preferably in the building sketch or identified in the addendum of the appraisal report.

- F. The appraiser must estimate the remaining economic life of the subject's improvements, (the remaining number of years that the subject's improvements will contribute value to the land) and report this estimate in the cost approach section. An explanation is required if the remaining economic life is less than 30 years (the explanation is used to justify reducing the term of the mortgage to less than 30 years).
- G. All appraisals of existing properties must include a discussion of deferred maintenance for the subject property. Items of deferred maintenance must be listed, and cost to cure for each item must be estimated with support provided.
- H. All reports must include a written explanation and documentation to support individual line item adjustments. Total net adjustment percentages and gross adjustment percentages when compared with the comparable sale unadjusted sale price shall be discussed.

8. COMPLETION CERTIFICATION:

- A. If determined by Rural Development (RD), the appraiser may be requested to re-inspect properties to determine if repairs to the home or construction of home were completed. RD shall determine the need for an appraiser to re-inspect a property. Re-inspection services may also be ordered on a separate contract if required. A list of additional repairs will be provided to the appraiser. Not all "subject to" appraisals will require re-inspection services.
- B. The appraiser shall submit their findings using the Fannie Mae Form 1004D/Freddie Mac Form 442 "*Appraisal Update and/or Completion Report.*" The completed report shall be delivered to the AGR within 7 business days from the date the order was received. The report shall include pictures of completed work.
- C. Re-inspection reports are due within 7 business days after notification is received from the AGR.

9. APPRAISAL REPORT DELIVERY DEADLINES:

The appraiser shall complete and deliver appraisals to the AGR within **10** business/working days or specified noted delivery time after date of order, or upon receipt of the appraisal information from AGR unless a different deadline is set by written mutual agreement at the time of order. If corrections and/or amendments to the appraisal are requested by the AGR, the corrections and/or amendments are to be delivered as soon as possible, but not later than **4** business days following the request unless, by written mutual agreement, other arrangements are made. If, for any reason the timely delivery of the appraisal report is delayed for reasons beyond the appraiser's control, the appraiser must contact the AGR and convey the reasons for the delay.

If, for any reason the timely delivery of the appraisal report is delayed for reasons beyond the appraiser's control, the appraiser must contact the AGR and convey the reasons for the delay.

10. REVIEW OF THE APPRAISAL REPORT:

All appraisals prepared for RD are subject to technical review by the agency. Appraisers must be prepared to discuss their analyses, reasoning, opinions, and conclusions. Additionally, if requested, they must provide additional written support, clarification, and/or corrected appraisal pages or report. If requested by the AGR or RD's Regional Agency Appraiser, they will provide assistance to monitor the progress and quality of the appraiser's performance and in all instances RD Regional Agency Appraisers will be granted permission to directly communicate with the appraiser signing the report as part of the review process.

11. ATTACHMENTS:

The Agency will provide the appraiser all necessary support information available at the time of appraisal engagement.

12. COMPLIANCE WITH STATEMENT OF WORK:

The appraiser must follow all provisions and instructions contained in this Statement of Work. When, in the opinion of the appraiser, the Regional Agency Appraiser or the AGR request effort(s) falling outside this Statement of Work, the appraiser shall promptly notify the AGR, in writing.

The Regional Agency Appraiser or the AGR has the authority to direct the accomplishment of any effort which goes beyond the Statement of Work, however, any changes resulting in additional charges must be approved by the contracting officer prior to commencement of work.

If the appraiser is unable to fully comply with this Statement of Work, the appraiser must decline the appraisal assignment in accordance with the USPAP.

13. SPECIFIC STATE REQUIREMENTS:

None

PLEASE NOTE: FAILURE TO FOLLOW THE STATEMENT OF WORK AND APPRAISAL INSTRUCTIONS CAN RESULT IN DENIAL OF FUTURE ASSIGNMENTS.

ATTACHMENT 5-B
SINGLE FAMILY HOUSING SITE CHECKLIST

Buyer/Owner Name _____ Property Address _____
Name of Subdivision: _____ Year Built: _____ (N/A, if no structures)
Property is currently () occupied () unoccupied. Was interior accessible? () Yes () No

1. SITE SUITABILITY, ACCESS, AND COMPATIBILITY WITH SURROUNDING DEVELOPMENT

Has the site been used as a dump, sanitary landfill, or mine waste disposal area? () Yes () No
If no, is the site in proximity to any such uses? () Yes () No

Is there indication of:

	<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>
distressed vegetation	()	()	oil/chemical spills	()	()
waste material/containers	()	()	abandoned machinery, cars,		
soil staining, pools of liquid	()	()	refrigerators, batteries, tires, etc.	()	()
loose/empty drums, barrels	()	()	transformers, fill/vent pipes,		
foul odor	()	()	pipelines, drainage structures	()	()
underground or above ground					
storage tanks	()	()			

Are there property easements for high-tension power lines or gas lines? () Yes () No

Are there other unusual conditions on site which might indicate potential for contamination from hazardous waste, hazardous substances, or petroleum products? () Yes () No

Is the site adjacent or in proximity to industrial areas, refineries, dry cleaners, chemical storage areas, recycling facilities, oil or gas wells, fueling stations, etc? () Yes () No

Note: Complete a **Transaction Screen Questionnaire (TSQ)** for any “YES” answer in item 1 before proceeding further. Contact the State Environmental Coordinator with any questions.

Are any of the following conditions present? Check if observed and explain on page 5 of 5:

- mold/mildew
- insect infestation
- asbestos (interior)
- asbestos (exterior)
- knowledge of past or current use for production of methamphetamine
- peeling paint (interior)
- peeling paint (exterior)
- ponding/standing water
- evidence of water runoff from adjacent properties

Is the site compatible with surrounding area in terms of:

Land use	<u>Yes</u>	<u>No</u>	Building type	<u>Yes</u>	<u>No</u>
Height, bulk, mass	<input type="checkbox"/>	<input type="checkbox"/>	Building density	<input type="checkbox"/>	<input type="checkbox"/>

Will the site be unduly influenced by:

Building deterioration	<u>Yes</u>	<u>No</u>	Transition of land uses	<u>Yes</u>	<u>No</u>
Postponed maintenance	<input type="checkbox"/>	<input type="checkbox"/>	Incompatible land uses	<input type="checkbox"/>	<input type="checkbox"/>
Obsolete public facilities	<input type="checkbox"/>	<input type="checkbox"/>	Inadequate off-street parking	<input type="checkbox"/>	<input type="checkbox"/>

2. SOIL STABILITY, EROSION, AND DRAINAGE

Slopes: Not applicable Steep Moderate Slight

Is there evidence of slope erosion or unstable slope conditions on or near the site? Yes No

Is there evidence of ground subsidence, high water table, or other unusual conditions on the site?
 Yes No

Is there any visible evidence of soil problems (foundations cracking or settling, basement flooding, etc.) in the neighborhood of this site? Yes No

Have soil studies or boring been made for the site or the area? Yes No Unknown

Do the soil studies or boring indicate marginal or unsatisfactory soil conditions? Yes No

Is there indication of cross-lot runoff, swales, drainage flows on the property? Yes No

Are there visual indications of filled ground? Yes No

Are there active rills and gullies on site? Yes No

If the site is not to be served by a municipal waste water disposal system, has a report of the soil conditions suitable for on-site septic systems been submitted? Yes No Not Applicable

3. NUISANCES AND HAZARDS

Will the site be affected by natural hazards:

	<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>
Faults, fracture	()	()	Fire hazard materials	()	()
Cliffs, bluffs, crevices	()	()	Wind/sand storm concerns	()	()
Slope-failure from rains	()	()	Poisonous plants, insects, animals	()	()
Unprotected bodies of water	()	()	Hazardous terrain features	()	()

Will the site be affected by built hazards and nuisances:

	<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>
Hazardous street	()	()	Railroad crossing	()	()
Dangerous intersection	()	()	Inadequate screened		
Through traffic	()	()	drainage catchments	()	()
Inadequate separation			Hazards in vacant lots	()	()
of pedestrian/vehicle traffic	()	()	Chemical tank-car terminals	()	()
Traffic way	()	()	Other hazardous chemical storage	()	()
Inadequate street lighting	()	()	High-pressure gas or liquid		
Quarries			petroleum transmission		
or other excavations	()	()	lines on site	()	()
Dumps/sanitary landfills or			Overhead transmission lines	()	()
mining	()	()	Hazardous cargo		
Heavy industry	()	()	transportation routes	()	()
Incinerators	()	()	Oil or gas wells	()	()
Power generating plants	()	()	Industrial operations	()	()
Oil refineries	()	()	Cement plants	()	()

Will the site be affected by nuisances:

	<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>
Gas, smoke, fumes	()	()	Unsightly land uses	()	()
Odors	()	()	Abandoned vehicle	()	()
Vibration	()	()	Vermin infestation	()	()
Vacant/boarded-up			Industrial nuisances	()	()
buildings	()	()	Other _____	()	()

4. WATER SUPPLY, SANITARY SEWERS, AND SOLID WASTE DISPOSAL

Is the site served by an adequate and acceptable:

water supply Yes No Municipal Private;

sanitary sewers and waste disposal systems Yes No Municipal Private;

and trash collection and solid waste disposal Yes No Municipal Private.

If the water supply is non-municipal, has an acceptable “system” been approved by appropriate authorities and agencies?

Yes No

If the sanitary sewers and waste water disposal systems are non-municipal, has an acceptable “system” been approved by appropriate authorities and agencies?

Yes No

5. NOISE ABATEMENT

Is the site located near a major noise source, i.e., civil airports (within 5 miles), military airfields (15 miles), major highways or busy roads (within 1000 feet), or railroads (within 3000 feet)? Yes No

6. AIRPORT HAZARDS

Is the project within 3,000 feet from the end of a runway at a civil airport? Yes No

Is the project within 2-1/2 miles from the end of a runway at a military airfield? Yes No

7. OTHER CONDITIONS

Are there any field conditions not specified above that would adversely affect the acceptability of the lots/sites? Yes No

Prepared By

Date

ITEM NUMBER	ADDITIONAL COMMENTS
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ATTACHMENT 5-C
AMENDMENTS TO MORTGAGES WITH LEASEHOLD INTEREST

The following paragraphs must be inserted in the mortgage. The first paragraph should be placed directly before the legal description of the real estate.

“All Borrower’s right, title, and interest in and to the leasehold estate for a term of _____ years beginning on _____, 20____, created, executed and established by certain Lease dated _____, 20____, by _____, Page _____ of _____ Records of said County and State, and any renewals and extensions thereof, and all Borrower’s right, title, and interest in and to said Lease, covering the following real estate.”

“Borrower will pay when due all rents and any and all other charges required by said Lease, will comply with all other requirements of said Lease, and will not surrender or relinquish, without the Government’s written consent, any of Borrower’s right, title, or interest in or to said leasehold estate or under said Lease while this instrument remains in effect.”

ATTACHMENT 5-D

TRANSMITTAL COVER SHEET FOR MAPPING SYSTEM MODIFICATION

Utilize this as a coversheet to transmit your request for ineligible area re-designations or errors identified to the present public website mapping system. Complete all fields to avoid delays in your request.

- Request: Re-designation of rural areas
 Correction of Error to existing mapping system

State: _____

Applicable Counties: _____

Submitters Name - _____
Point of Contact: _____

Email Address: _____

Telephone #: _____

- Form RD 2006-3, Instruction and Form Justification has been completed and a copy of the State Supplement to the HB-1-3550
 has been approved or is included with this submission.

The following materials are enclosed:

- Geographic Information Systems (GIS) shape file identifying ineligible boundaries.

Documentation Submittal:

Email	
Send to: RA.dcwashing3.SFHGLD(SFHGLD@wdc.usda.gov) AND RA.dcwashing2.RDSFHDP(SFHDIRECTPROGRAM@wdc.usda.gov)	
(When an email copy is not feasible, contact the SFH Direct Loan Division for instructions.)	

Comments: Include additional information regarding errors to the present mapping system or re-designation comments.

ATTACHMENT 5-E

ELIGIBILITY SYSTEM MODIFICATION REQUEST PROCESS

Instructions for Eligibility Map Changes

No map changes will be processed without an approved Form RD 2006-3 showing the rural area changes as adopted by the State.

The preferred method of delivery is electronic. Refer to Attachment 5-E regarding the level of detail and process flow that occur once modified maps and text is submitted. There are three types of modification requests. The level of complexity (the number of modifications requested) determines the length of time to production implementation.

Allow ample time prior to implementation of revised ineligible areas. GIS shape files are the preferred method of maps as they are digitized and facilitate changes to the mapping system. Maps that require digitizing to enable posting to the public eligibility website will require additional time, as will substantial changes to the existing mapping system.

Occasionally States identify actual errors to the public website mapping system (i.e. a correction to an incorrectly coded map). This type of modification falls under Type 1 identified in Attachment 5-F.

Attachment 5-F is provided for visual purposes.

The following information discusses the process of requesting changes to the public eligibility website. It also discusses what the State Offices need to do in order to test and approve requested modifications. Finally, it will provide an idea of what is involved in the request approval process that must go through the Configuration Management & Standards Compliance Branch in the St. Louis DCIO office. The level of detail is provided to keep States abreast of the processes that must take place in order to modify the public eligibility website.

I. Modification Request Types, Request Instructions and Examples

There are 3 types of modification requests. Their descriptions are below, along with the procedure to complete a request. The differences are (1) the number of modifications within a request and (2) the length of time it will take for making the modifications and their eventual deployment to the Production environment.

A Geographic Information Systems (GIS) shape file is the preferred method of delivery with map changes and will assist in a timely implementation of boundary changes. The following are suggestions in obtaining GIS shape files:

- States are encouraged to work with their city planner when city limit boundaries are involved in obtaining a shape file of the area.
- Each State (and in some States - each service center) has a Natural Resources Conservation Service (NRCS) GIS Specialist who may be able to assist with GIS needs.
- If maps need adjustments (as opposed to new maps), the existing shape file from the public eligibility website, may be requested by contacting the National Office at:
RA.dcwashing3.SFHGLD (SFHGLD@wdc.usda.gov)

RA.dcwashing2.RD-SFHDP (SFHDIRECTPROGRAM@wdc.usda.gov)

Deployment of the new maps to the eligibility website and implementation of boundary changes should be planned surrounding the guidance provided below.

*** Type 1 – Basic Modification\Correction Request:**

A basic modification request is a request that requires modification to the text description and/or a State's eligibility map (mapping to be based at a county level). A basic modification has no more than 2 ineligible areas within the request. This request should include a map with an outline of the new or modified ineligible area. Type 1 requests (including changes to boundary lines or corrections to erroneous maps) take approximately one to two weeks for modifications. When modification is complete, the requestor will be contacted for testing. Once the maps are tested and approved by the requester, the implementation process will begin. The timeline for modification and implementation is typically 3 to 5 weeks.

*** Type 2 - Moderate Modification\New Eligibility Area Request:**

A moderate modification or new eligibility area request is a request that requires significant modifications to more than 2 ineligible areas on a State's eligibility map (mappings being based at a county level), or is a newly defined ineligible area. This request should include a map with an outline of the new or modified ineligible area. Type 2 requests take approximately two to four weeks for modifications. When modification is complete, the requestor will be contacted for testing. Once the maps are tested and approved by the requester, the implementation process will begin. The timeline for modification and implementation is typically 4 to 7 weeks.

*** Type 3 – Text Description Modification Request:**

A text description modification request is only for text changes. Type 3 requests should contain the exact text the Field Office requires to be placed on the site. The text description will be utilized to prepare the boundary lines and will be compared to the map submitted. It is important that the text version clearly defines the boundaries submitted. When modification is complete, the requestor will be contacted for testing. Once the text version is tested and approved by the requester, the implementation process will begin. The timeline for modification and implementation is typically 2 to 3 weeks.

*** How to request a modification, addition or correction:**

The State Office should request changes through utilization of a transmittal similar to Attachment 5-D. **The Program Director is the State point of contact and communication regarding modifications, additions or corrections must be transmitted through the Program Director.** Requests will not be accepted from field offices. Electronic requests will be forwarded to the National Office at: RA.dcwashing3.SFHGLD (SFHGLD@wdc.usda.gov) and RA.dcwashing2.RD-SFHDP (SFHDIRECTPROGRAM@wdc.usda.gov). Accompanying each request, the State must clearly indicate the type of request to be performed. **The request should have detailed listings of all changes required by county and/or city.**

The transmittal should also clearly reference what should be changed on the public eligibility map. Clearly referencing the changes to occur are recommended as follows: 1) If the State or Field Offices have access to Microsoft Word (place a copy of a map of the area to be modified into a Microsoft Word document. Utilize the drawing tools within Microsoft Word for highlighting changes that are needed. 2) If the State or Field Offices have access to Adobe Acrobat, use the tools to draw on an existing map. 3) Scan a hand-written modification on a printed map. The examples provided are suggestions to a timelier more accurate implementation of boundary line changes. If the State or Field Office cannot provide a detailed mapping, a text description only will be accepted. Insure the text version clearly defines the ineligible boundaries. Personnel from the Enterprise Technologies Branch in the St. Louis DCIO office will contact the requestor with any questions.

*** Example of documents to be submitted:**

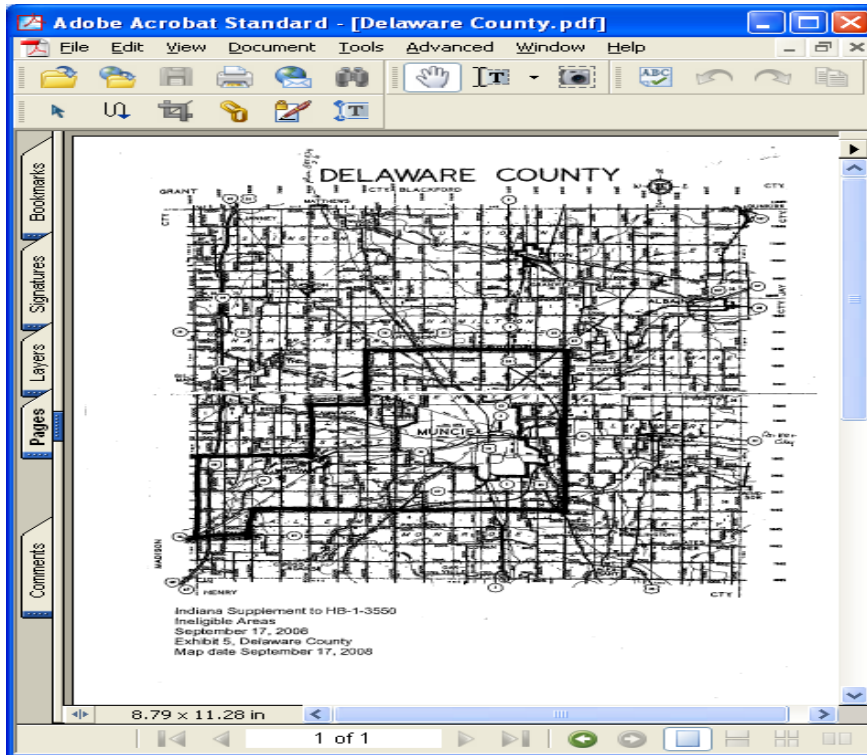
Below is an example of the type of information the Enterprise Technologies Branch in the St. Louis DCIO office will need in order to complete a request. This example is based from a county modification request.

Text Description:

Delaware County, Indiana, Ineligible Area Description

The area in Delaware County inside a line beginning at the intersection of the Madison County line and County Road 100 South, extending east to County Road 600 West, north to County Road 200 North, east to County Road 400 West, north to County Road 500 North, east to County Road 300 East, south to County Road 400 South, west to County Road 800 West, south to State Road 67, west to the Madison County line, and north to the point of beginning.

Map Example:



II. Testing Requested Changes

Once the modifications have been made, they are implemented into the Test environment. Upon these changes being made in the Test environment, the requestors will be contacted and asked to review the requested modifications for approval.

The State or Field Office representatives that made the initial request should then review the requested changes in the Test environment. An email notification will be sent to the requestor notifying them of modifications implemented into the Test environment. The Test environment can be found at the following link:

Eligibility Test Site: <http://eligibility.test.sc.egov.usda.gov>

The user's e-authentication identification will be utilized to access the site.

Log into the test environment and review the changes on both the map and the text description. If there are any issues with what has been changed, or questions, refer those issues/questions to whom the email request was received from.

III. Approving Requested Changes and the Implementation Process

Once the requestor has reviewed and approved the changes necessary for their ineligible area map, respond to the email requestor stating that the changes made fit the business needs of the State and Field Offices. The following information lists specific detail that must accompany your response and confirmation. The items are required by the Configuration Management process in order to get the changes implemented to the Certification and deployed to the Production environments. The items that need to be listed in the email response are:

- What county and State have been reviewed
- State that all changes made have been tested and are acceptable
- State that all changes made should be moved to the Certification and Production Environments
- In the email, please refer to RFA number “A-11012” and RFC number “RFC-11108”

The above listed items are a requirement for the User Acceptance letters used in the Configuration Management implementation process.

Once received, the Enterprise Technologies Branch (ETB) in the St. Louis DCIO office will create a request package for the implementation of the changes to be placed into both the Certification and Production environments.

There are many types of configuration implementation process. Updates to the public eligibility website will utilize the CERT\HOLD\PROD request type for Configuration Management implementation. This request type indicates changes will be implemented into the Certification (CERT) environment first, followed by Production (PROD) in either of the next 2 regularly scheduled Production releases. The implementation into the Certification environment can take up to one week. Additionally, a one or two week gap between implementation to the Certification and Production environment could occur.

Once the changes are placed into the Certification environment, the Enterprise Technologies Branch will be responsible for reviewing/confirming the changes in the Certification environment match those within the Test environment that was approved. These can be viewed at the following link:

<http://eligibility.cert.sc.egov.usda.gov>

The user's e-authentication identification will be utilized to access the site.

After review of the Certification environment has been completed and approved, the Production implementation will take place. The implementation will be completed during the next available, normal Production release (typically the following Wednesday, depending on the length of time it takes the requestor to reply to the email notification). If the Certification environment review fails, the Enterprise Technologies Branch will acquire the correct file structure from the approved Test environment and request the local Configuration Management team re-deploy the correctly modified files.

The Production environment link is as follows:

<http://eligibility.sc.egov.usda.gov>

***Extraordinary Circumstances/Special Request Process**

In the event that there are extenuating circumstances that require the updates be placed to the Production environment more timely than the typical flow, a special request process can be utilized. This request must be justified based on Field Office\State Office need. To submit a special request for an expedited implementation, the State Director must provide a justification as to the circumstances requiring an implementation timeline that requires attention over the typical flow of timelines outlined in Type 1, 2 and 3 above. The justification must indicate specific reasons for an expedited implementation and must confirm the need is beyond the control of the State and is not due to the lack of planning the change or otherwise an error on the part of the State. This justification will accompany the transmittal and modifications request.

ATTACHMENT 5-F

ELIGIBILITY SYSTEM MODIFICATION WORKFLOW

