

## CHAPTER 12: SECTION 504 LOANS AND GRANTS

### 12.1 INTRODUCTION

The objective of the Section 504 loan/grant program is to help very low-income owner occupants of modest single-family homes in rural areas repair their homes. Loan funds are available for repairs to improve or modernize a home, make it safer or more sanitary, or remove health and safety hazards. For homeowners that are 62 years of age and older, grant funds are available to remove health or safety hazards, or remodel dwellings to make them accessible to a household member with a disability. Attachment 12-A, of this Chapter, provides a summary of the differences between Section 504 loans and Section 504 grants, Attachment 12-B, of this Chapter, provides the differences between Section 502 and Section 504 loans, Attachment 12-C provides a processing and closing checklist, Attachment 12-D, of this Chapter, provides a checklist for assessment of an existing dwelling, Attachment 12-E provides items included with a complete application, and Attachment 12-F, of this Chapter, provides a pre-construction checklist.

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

### 12.2 ELIGIBLE PURPOSES FOR 504 FUNDS [7 CFR 3550.102]

Section 504 loan funds may be used to make general repairs to improve or modernize the property (including a new addition to an existing home), as long as the dwelling remains modest. Loan Originators may approve any of the eligible costs listed in Chapter 6 Paragraph 6.4 of this Handbook, unless specifically prohibited in 7 CFR 3550 and this chapter. In limited circumstances, funds may be used to refinance an Agency loan as a special servicing action (subject to the availability of funds and Agency priorities) such as at the end of a moratorium. Directives will be provided for usage of this option as Agency priorities are determined.

Section 504 grant funds may be used only for repairs and improvements that will remove health and safety hazards, or to repair or remodel dwellings to make them accessible and useable for a household member with a disability. A **hazard** is a property condition that jeopardizes the health or safety of the occupants or members of the community, but that does not make it unfit for habitation. A **major hazard** is a condition so severe that it makes the property unfit for habitation.

### **A. Eligible Purposes for 504 Funds**

In addition to the above, Section 504 loan and grant funds may be used to:

- Pay for the purchase and installation of essential equipment including range stove, refrigerator, permanent generator, clothes washer and/or dryer, if the applicant's existing equipment is not in working order or the equipment is not currently in the home, and if the purchase is not the primary purpose of the 504 funds;
- Provide site improvements (e.g., grading, foundation plantings, seeding or sodding, trees, walks, yard fences, or driveways). Grant funding may only be used for this purpose if the Loan Approval Official documents the need is for a bona fide health and safety issue or to make the home accessible for a household member with a disability;
- Construct a storm shelter when needed for safety in areas with tornadoes or hurricanes;
- Cover the initial escrow deposit when the Agency must set up an escrow account (see Paragraph 12.11 of this Chapter); and
- Pay for the installation of an on-site retaining wall with loan funds. Requests to use funds for a retaining wall require input from Program Support Services, Architectural Branch on need and handling (via their request portal in SharePoint). **Grant funding may only be used for this purpose if a landslide threatens to damage the home.**

### **B. Repairs to Mobile or Manufactured Homes**

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

- The applicant owns the home and the site and occupied the home prior to filing an application;
- The repairs are needed to remove health or safety hazards; and
- The home is on a permanent foundation or will be put on a permanent foundation with Section 504 funds.
  - A permanent foundation is either: (1) a full below-grade foundation; or (2) blocks, piers, or some other type of foundation with skirting, and anchoring with tie-downs.

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

### **C. Restrictions on the Use of 504 Funds**

Section 504 loan or grant funds cannot be used to:

- Assist in the construction of a new dwelling;
- Make repairs to a dwelling in such poor condition that when the repairs are completed, the dwelling will continue to have major hazards;
- Move a mobile home or manufactured home from one site to another;
- Pay for any off-site improvements except for necessary installation and assessment costs for utilities;
- Refinance non-Agency debt or obligation that the applicant incurred before the date of application (except for payment of the installation and assessment costs of utilities); or
- Pay packaging fees to for-profit entities (nonprofit packaging fees may be paid by 504 loan or grant funds).

### **12.3 FORM RD 3550-35, SECTION 504 HOME REPAIR LOAN AND GRANT PROGRAM INTAKE FORM**

The prequalification process offers potential applicants an optional way to evaluate the likelihood of their program eligibility. Those interested in the 504 program can be provided Form RD 3550-35, “Section 504 Home Repair Loan and Grant Program Intake Form” and Form RD 3550-1, “Authorization to Release Information” prior to completing a full application as described below in Paragraph 12.4. Using the unverified information provided on the intake form, the Loan Originator will enter the prequalification data into UniFi and discuss the results with the potential applicant. If an application is requested, the Loan Originator should print Form RD 410-4, “Uniform Residential Loan Application,” from UniFi and provide it to the applicant with the standardized application package. Further information regarding the prequalification process can be found in Chapter 3, Section 1. Use of Form RD 3550-35 is optional for applicants; however, if an intake form is received by the Agency, it should be processed within 30 days of receipt.

## 12.4 APPLICATIONS [7 CFR 3550.104]

Applicants interested in the 504 program will be provided the standardized application package (which Field Staff can find in the SFH Direct SharePoint site under General Info > Useful Documents).

The “Date Application Received” field in UniFi must be completed promptly upon receipt of an application; and applications must be reviewed within 3 business days after receipt to determine if the Loan Estimate disclosure requirement was triggered (see Paragraph 3.8) and to determine if items are missing. The Non-Purchase Loan Estimate and Closing Disclosures should be utilized for 504 loans where a security interest will be taken. For unsecured loans (i.e., the total Section 504 indebtedness is less than \$7,500), Form RD 1940-41, “Truth in Lending Statement” is required.

The Loan Originator will send Handbook Letter 11 , Appendix 3 of this Handbook, Request Information, to the applicant requesting any missing items and stating that their application will be withdrawn if the missing information is not received within 15 days (30 days may be allotted if the applicant is waiting for repair estimate(s)). A complete Section 504 application includes applicable items listed on Attachment 12-E, of this Chapter, checklist.

The Loan Approval Official should make a determination of eligibility within 30 days of receiving a complete loan application. When funding is available, a pre-construction conference should be scheduled within 30 days of an eligibility determination and loan/grant approval. Attachment 12-F, of this Chapter, is utilized to document the pre-construction conference.

If funds are insufficient to continue processing an application from an applicant who has been determined eligible, the applicant should be notified using Handbook Letter 2 (3550), Waiting Period and follow up with Handbook Letter 3-A Appendix 3 of this Handbook, Waiting Period (Funds Not Available) as applicable (see Exhibit 3-2 of Chapter 3 of this Handbook). If an eligibility determination cannot be made within 30 days of receiving a complete application, Handbook Letter 3-B Appendix 3 of this Handbook, Waiting Period (Extended Processing Timeframe), will be sent to the applicant with the approximate waiting period until an eligibility determination can be made and follow up with another Handbook Letter 3-B as applicable (see Exhibit 3-of Chapter 3 of this Handbook).

Section 504 applications requesting assistance to remove health or safety hazards should receive priority processing. Veterans’ preference described in Chapter 3 Paragraph 3.13 C of this Handbook. should be used in cases where multiple applications with the same priority preference are received on the same day. When funding is insufficient, complete applications with health and safety hazards (e.g., unsafe water, failed septic system, lack of heat, and those affected by natural disasters) will receive **First Priority**, and all other applications will be **Second Priority**. In the case of applications with equivalent priority status that are received on the same day, priority will be extended to applicants qualifying for a veterans’ preference.

A property evaluation may be conducted utilizing online resources and photos to view the property and real estate tax assessments to determine the condition and value of the property. If the condition of the property cannot be determined using online resources, or recent photos from the applicant or third party sources (e.g. inspector, self-help grantee, etc.), an on-site visit is documented with Attachment 12-D, of this Chapter, Checklist for Evaluation of Existing Dwelling.

## Paragraph 12.4 Applications [7 CFR 3550.104]

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

**12.5 APPLICANT ELIGIBILITY [7 CFR 3550.103]****A. Income**

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

Medical deductions in excess of 3% of annual income should be closely examined and applied to elderly applications, as described in HB-1-3550, Chapter 4 Paragraph 4.4 G of this Chapter. Consider the following unreimbursed ongoing/projected medical expenses; Medicare premiums, supplemental insurance, long- term care insurance, prescription drug coverage, pharmacy expenses, co- payments, eyewear, hearing aid / batteries, exams, monthly payments for medical bills, disability expenses, in home care expenses, dental expenses, including the greater of the actual travel costs for medical appointments or the published Internal Revenue Service mileage rate. You may not deduct funeral or burial expenses, nonprescription medicines, toothpaste, toiletries, cosmetics, a trip, or program for the general improvement of your health, or most cosmetic surgery. Additional guidance on eligible medical expenses can be located on the Internal Revenue Service website.

**B. Credit Requirements**

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

For loans, applicants must have a credit history that indicates a reasonable ability and willingness to meet debt obligations. Applicants with a credit score of 620 or higher, do not require Form RD 1944-61, "Credit History Worksheet," or further evaluation. These applicants are considered to have acceptable credit histories, with the exception for loan applicant(s) with a significant delinquency described in Chapter 4 Paragraph 4.12 A, of this Handbook, or delinquency of a federal debt.

For loans, to assist the Agency with verifying a non-purchasing spouse's obligations in community property states, the applicant's non-purchasing spouse must provide a credit report or reports from each of the three nationwide consumer credit companies – Equifax, Experian, and TransUnion as described in HB-1-3550, Chapter 4 Paragraph 4.12 D of this Handbook.

Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin. Puerto Rico allows property to be owned as community property as do several Indian jurisdictions. Alaska is an opt-in community property state, where property is separate unless both parties agree to make it community property through a community property agreement or community property trust. As laws vary from state to state, Loan Originators should contact the appropriate Office of General Counsel with questions regarding the consideration of a non-purchasing spouse's credit history.

For unsecured loans, an infile credit score is considered reliable. An applicant with a credit score less than 620 must demonstrate a history of reliable traditional or non-traditional credit using Form RD 1944-61, "Credit History Worksheet" to conduct the credit analysis.

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

The Loan Originator will check Department of Treasury's Do Not Pay (DNP) portal, as described in Chapter 4 Paragraph 4.11 of this Handbook for loan and grant requests. Infile credit reports will be required for applicant(s) receiving a 504 loan assistance. A Tri-Merge Credit Report (TMCR) is required for all applications for loans of \$7,500 or greater, but the cost of the report is not charged to the applicant. A TMCR is not required to deny a loan request of less than \$7,500.

### **C. Asset Requirements**

Asset requirements are identical to those imposed by Section 502, except only assets that can be converted to cash in 60 days or less are included in the calculation of non-retirement assets. Non-retirement assets in excess of \$15,000 (or \$20,000 for an elderly household), must be used to reduce the Section 504 request.

An applicant's home equity should not be considered in the asset calculation and should not be used as a test for other credit.

### **D. Repayment Ability**

To qualify for a Section 504 loan, the applicant must have a reliable income source sufficient to allow repayment of the loan as supported by a budget. A budget is defined by using a maximum Total Debt (TD) ratio of 41%. Non-taxable income is not "grossed up" for the Section 504 program.

### **E. Age for Section 504 Grants**

At least one qualified applicant must be 62 or older for a household to receive grant assistance. A qualified applicant with an eligible grant purpose may receive grant funds first (up to the lifetime limit). If grant funds are not enough to cover the needed repairs, the applicant's loan repayment ability will be calculated (see Paragraph 12.5 D of this Chapter).

### **F. Ownership of Property**

The applicant must own and occupy the property to be eligible for Section 504 funds, and must be able to document ownership, as described in Chapter 5 Paragraph 5.11 of this Handbook, with 3 exceptions:

**Leasehold Interest:** For Section 504 loans, the property must be covered by a lease with an unexpired portion of not less than 2 years beyond the term of the promissory note, and for grants, the remaining lease period must be at least 5 years.

## Paragraph 12.5 Applicant Eligibility [7 CFR 3550.103]

**Land Purchase Contract:** This form of ownership is acceptable if the applicant is current on all payments and has the ability to remain current.

**Nonstandard Forms of Ownership:** If standard evidence of ownership, as described in Chapter 5 Paragraph 5.11 of this Handbook, is not available, Section 504 loan/grant applicants may demonstrate ownership by presenting any of the following:

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

Trusts, partnerships, limited liability companies, for-profit, or non-profit corporations are not an eligible program applicant, borrower, or owner. In limited cases, an individual exception request for a special needs trust can be presented to the National Office for consideration (see Chapter 1 Paragraph 1.15 of this Handbook).

## **12.6 PROPERTY ELIGIBILITY [7 CFR 3550.106(a)]**

### **A. Property Requirements**

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

The property must be deemed a single-family housing residential unit. The Agency will not use 504 program funds to improve multi-family housing, or accessory dwelling units (see Chapter 5 Paragraph 5.6 D.2, of this Handbook).

A modest dwelling may not have an estimated or appraised value that is greater than the applicable area loan limit unless waived by the State Director. Waivers will be documented in the recipient's electronic customer file.

### **B. Determining Property Value**

The Loan Approval Official will determine whether an appraisal is needed to assure adequate security exists for the proposed loan. An appraisal is never required for an unsecured loan. An appraisal is required when the sum of all secured (RD or non-RD) indebtedness, including the proposed repair loan, exceeds \$25,000. Section 504 applicants are required to pay an appraisal fee if an appraisal is deemed necessary. The cost of the appraisal fee is described in Chapter 5 Paragraph 5.20 of this Handbook and may be included in the 504 loan amount.

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

### **C. Construction Standards**

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

### **D. Environmental Requirements**

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

## **12.7 INTEREST RATE AND LOAN TERM [7 CFR 3550.113]**

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

## **12.8 MAXIMUM LOAN AND GRANT AMOUNTS [7 CFR 3550.112]**

### **A. Maximum and Minimum Loan Amount**

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

- **Outstanding loan amount.** The sum of the outstanding balance on all Section 504 loans may not exceed \$40,000.



- **Repayment ability.** The applicant receiving a loan must demonstrate repayment ability based on an analysis of the applicant's TD ratio not to exceed 41%. Please refer to Chapter 4 Paragraph 4.22 (B) (2) of this Handbook, "Establishing TD", for guidance regarding calculating total debt. Compensating factors must be approved by the next level supervisor as described in Chapter 4 Paragraph 4.24 (A) of this Handbook.
- **Eligible costs.** The applicant can only receive loan funds to cover eligible costs. For example, if the applicant has only \$5,000 of eligible repairs to make, the maximum loan allowed is \$5,000.

### **B. Grant Limits**

The lifetime grant assistance to any one household or one dwelling cannot exceed a cumulative total of \$10,000. A dwelling's grant eligibility is reset when it is transferred to a new owner provided the transfer wasn't to a household member.

## **12.9 LOAN APPROVAL AND CLOSING [7 CFR 3550.108]**

### **A. Loan Approval**

Form RD 3550-7, "Funding Commitment and Notification of Loan Closing" is used to notify applicants of loan approval for secured loans. Handbook Letter 12, Appendix 3 of the Handbook, Notification of Approval, (504 Grant and/or Loan) is used to notify applicants of loan approval for unsecured loans. On the same day, Form RD 3550-7 is signed by the Loan Approval Official, the Loan Originator obligates the funds in LoanServ, and the form is sent to the applicant. The applicant has 15 days to sign and return the form or the Loan Originator must deobligate the loan. If the loan amount increases prior to loan closing, a revised Form RD 3550-7 (secured loan) or HB Letter 12 (unsecured loan) will be sent to the applicant within 15 business days of the increase; the applicant has 15 days to sign and return the new form or the Loan Originator must deobligate the loan. Deobligations will follow the processes outlined in Chapter 8, Paragraph 8.3 of this Handbook.

Preparation of all forms needed to close the loan should be handled in accordance with Chapter 8.

Handbook Letter 15, Appendix 3 of this Handbook, Standard Adverse Decision Letter is used to notify applicant of a denial of credit.

## **B. Security Requirements**

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

## **C. Loan Closing**

If the total outstanding balance on Section 504 loans is \$25,000 or less, the loan may be closed by the Loan Originator or designee and requires a Non-Purchase Loan Estimate and Closing Disclosure be provided in accordance with Truth in Lending Act and Real Estate Procedures Act Integrated Mortgage Disclosures (TRID). If the total outstanding balance on Section 504 loans is greater than \$25,000 the loan must be closed by a closing agent and is also subject to TRID disclosure requirements. Unsecured loans (i.e., the total Section 504 indebtedness is less than \$7,500) require issuance of Form RD 1940-41, "Truth in Lending Statement." Please refer to Chapter 3 of this Handbook for further information on TRID. The process for selecting a closing agent is the same as for a Section 502 loan and is detailed in Chapter 8 Paragraph 8.4 of this Handbook. For a combination loan and grant, both the loan and grant closings must occur at the same time. No funds (loan or grant) may be disbursed prior to closing.

# **12.10 GRANT APPROVAL AND DISBURSEMENT**

## **A. Grant Approval**

Grant recipients are notified of grant approval by sending Handbook Letter 12, Appendix 3 of this Handbook, Notification of Approval (504 Grant and/or Loan) immediately after the funds are obligated in LoanServ. If the grant amount increases, a new letter must be sent to the applicant within 15 days of the change.

## **B. Grant Repayment Agreements [7 CFR 3550.114]**

Before any grant funds are disbursed, the recipient(s) must sign Form RD 3550-24, "Grant Agreement." The agreement states that if a home repaired with Section 504 grant funds is sold within three (3) years of signing the grant agreement, the full amount of the grant must be repaid. In the case of a life estate interest or an undivided ownership interest, as described in Chapter 5, Paragraph 5.11 of this Handbook, all co-owners living or planning to live in the household must sign Form RD 3550-24. The original Form RD 3550-24 should be filed with the promissory notes in a locked cabinet with a copy to the recipient's electronic customer file, and a copy provided to the recipient. Exhibit 12-1 of this Chapter illustrates owner and co-owner income, assets and signatures required for secured loans and unsecured loans or grants.

## Paragraph 12.10 Grant Approval and Disbursement

<b>Exhibit 12-1</b>				
	<b>Applicant Co-Applicant</b>	<b>Co-Owner Resident</b>	<b>Co-Owner Non-Resident</b>	<b>Other Household Members</b>
Verify Income	Yes	Yes	No	Yes
Verify Assets	Yes	Yes	No	Yes
Repayment Agreement	Yes	Yes	No	No
Security Instrument	Yes	Yes	Yes or No*	No

\*Undivided interests, life estates and other jointly held property not exceeding 50 percent of ownership, may be excluded by the State Director if permitted by State law for secured loans (see Chapter 5 Paragraph 5.11 of this Handbook).

### C. Documentation of Grants

To ensure that any one household or one dwelling does not receive more than the maximum allowable grant assistance, the Loan Originator must document the amount of any prior grant provided to each homeowner or dwelling. Since 1998, grant records have been maintained in LoanServ. A list of grants closed prior to 1998 will be retained in the state operational file folder 3550-C, "Section 504 Grantee List." When processing grant applications for individuals born prior to 1936, both LoanServ and the operational file folder will be checked to document if prior assistance was received. For all other grant applications, LoanServ must be checked by individual and by dwelling address. A dwelling that received past maximum grant assistance may only receive a new grant if ownership has changed.

### 12.11 ESCROW, TAXES, AND INSURANCE [7 CFR 3550.109, 7 CFR 3550.110]

If the total outstanding indebtedness is more than \$15,000, Section 504 borrowers are responsible for furnishing and maintaining hazard insurance, as described in Section 3 of Chapter 7 of this Handbook. If funds are not escrowed through another lender to pay for taxes and insurance, the borrower must contribute the appropriate amount to an escrow account managed by the Agency. Escrow is also not required where the security property includes a farm, and the property is not subdivided between the farm and non-farm tract unless the housing represents the majority of the value of the security property, or it is in the Agency's best interest.

Flood insurance is required when any form of federal financial assistance which is intended in whole or in part for the acquisition, construction, reconstruction, or substantial improvement of any building located in a Special Flood Hazard Area, as identified by the National Flood Insurance Program, administered by the Federal Emergency Management Agency and described in RD Instruction 426.2. Substantial improvement means any reconstruction, rehabilitation, addition, or other improvement of a structure, the cost of which equals or exceeds 50 percent of the market value of the structure (a) before the start of construction of the improvement, or (b) if the structure has been damaged and is being restored, before the damage occurred (see Chapter 7, Section 3 of this Handbook for further information on calculating substantial improvements).

## **12.12 MANAGING REPAIRS AND MINOR REHABILITATION**

This section generally refers to work being done that is not new dwelling construction such as subsequent loans, and unsecured Section 504 loans and grants. Typically, the repairs, improvements, or minor rehabilitation (work) discussed within this section would be able to be completed within 30 days of it commencing. If work will take more than 30 days, the loan must be processed and coded as ‘construction’ (e.g., interest deferral period and subsequent conversion to a permanent loan).

### **A. Communicating the Standards**

It is the applicant’s responsibility to be aware of the standards the local jurisdiction has in place for repairs or improvements to their home before the design or estimate process progresses.

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

### **B. Selecting the Contractor**

While the Agency does not approve contractors, the Agency may provide applicants with sound advice on selecting a contractor (e.g., encouraging competitive estimate, checking references, Better Business Bureau review, etc.). The Loan Originator should discuss any concerns from their initial review with the homeowner to assist with their contractor selection decision. The Loan Originator should document in the running record which contractor(s) the homeowner selected.

The contractor must be checked in the Do Not Pay Portal and have a valid contractor’s license if required by the local jurisdiction, and such license must be documented by the Loan Originator (e.g., contractor provided verification or online search, when available). In many cases, the applicant will have a contractor in mind. The contractor’s estimate should include a breakdown of materials and labor and describe the quantity, quality, grades, styles, model numbers, etc. to identify the work and materials to be furnished.

The applicant will provide an adequate number of estimate(s) from a qualified contractor(s). The local office must review the estimate(s) obtained to ensure costs are reasonable for the area serviced and the number of estimate(s) are sufficient. Online construction cost comparison tools may be used when appropriate. The estimate(s) must be detailed to include cost of material, size, quantity, and manufacturer.

### **C. Pre-Construction Conference**

Once the funding has been obligated, the Agency, the applicant(s), and the contractor(s) are required to hold a pre-construction conference using Attachment 12-F, of this Chapter, Pre-Construction Conference prior to work commencing. The purpose of the conference is to ensure that each party understands their respective roles and responsibilities. The parties should review the contract or accepted contractors estimate/proposal, start date, estimated completion date, requirements, and specifications to ensure all parties understand the scope of work, construction/thermal standards, environmental mitigation requirements, fees, materials, inspection requirements, change orders, responsibilities for access, cleanup, and payment procedures. Along with the RD Representative, the applicant/owner and the contractor should sign Attachment 12-F of this Chapter. Alternatively, the applicant/owner and the contractor can acknowledge the pre-construction conference via an email exchange that includes the completed Attachment 12-F of this Chapter with the RD Representative's signature.

### **D. Construction Contract**

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

## **12.13 COMMENCEMENT OF WORK**

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

**A. Inspecting the Work**

The homeowner is responsible for inspections necessary to protect their interest. Agency inspections, (including acceptable alternatives) are completed to ensure the funds were used for the approved purpose and do not imply duty or obligation to the homeowner. The inspection(s) may be conducted on-site by Agency staff utilizing Form RD 1924-12, "Inspection Report", or by alternative methods provided by the contractor or homeowner such as photos/videos showing the completed work. Alternative methods of inspection should be accompanied by a written report as needed to document items such as the appropriate posters being on display, percent of work completed, etc. Written reports without photos provided to the Loan Originator should be used as last resource and must be confirmed by the homeowner.

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

**B. Payment Upon Completion**

**Payment Options**

Before the Loan Originator initiates payment(s), the homeowner's authorization must be documented on Form RD 1924-9, "Certificate of Contractors Release." The number and timing of inspections varies by the type and extent of work performed.

Once work has commenced, there are two payment options. The first and preferred method is lump sum payment upon completion of work. The second is multiple advances for work in place in accordance with HB 1-3550, Chapter 5 Paragraph 5.26 C of this Handbook. Multiple advances are used to pay the contractor for work completed and calculated not to exceed 60% of the value of work in place for that portion of the contract (i.e., contract \$10,000, 25% of work completed, calculated as:  $0.25 \times \$10,000 \times 0.60 = \$1,500$  payment).

### C. Required Forms

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

**1. For unsecured loans and grants the Loan Originator must receive the following documentations prior to final payment:**

- Form RD 1924-9, "Certificate of Contractor's Release" including an applicant/owner signature(s) confirming their acceptance of the work.
- Form RD 1924-19, "Builder's Warranty," other 1 year warranty document, as applicable.
- Evidence of completed work: Either Form RD 1924-12, "Inspection Report," or a copy of a third-party inspection, or photos of the completed work as provided by the owner or contractor.

**2. For secured loans the Loan Originator must receive the following documentation prior to final payment:**

- Form RD 1924-9, "Certificate of Contractor's Release" including an applicant/owner signature(s) confirming their acceptance of the work.
- Form RD 1924-10, "Release by Claimants."
- Form RD 1924-19, "Builder's Warranty," other 1 year warranty document.
- Evidence of completed work: Either Form RD 1924-12, "Inspection Report," or a copy of a third-party inspection, or photos of the completed work as provided by the owner or contractor.

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

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

- Checks can be made payable directly to the laborer(s) and/or supplier(s) to purchase labor, equipment and materials, or
- Checks can be issued to the owner, if the owner has paid for labor/material out of pocket, provides receipts/invoices to document the amount paid, and has obtained signatures of the workers who performed labor on Form RD 1924-11, "Statement of Labor Performed".

The following documentation should be completed prior to final payment:

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

## **12.14 CLOSEOUT PROCESS**

Once work is satisfactorily completed, the Agency will release the final payment in the form of a check made out to the homeowner and their contractor. The homeowner is party to the contract and therefore responsible to countersign the check and release it to the contractor as payment. Before payment occurs, the Loan Originator ensures that the work has been accepted by the homeowner. If construction or rehabilitation work cannot be completed because the contractor is unable or unwilling to do so, and a new contractor is not identified by the homeowner within 30 days, loan funds will be applied to reduce the borrower’s principal balance. Grant funds will be returned to the Servicing and Asset Management Office (Servicing Office). The homeowner must be notified of this action in writing.

If the homeowner refuses to pay the contractor due to a dispute or unsatisfactory workmanship, the undisbursed funds will be processed in the following manner:

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



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

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

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

**B. Disbursement [DLOS Manual Chapter 8]**

Loans and grants can be disbursed utilizing either multiple draws or single check disbursement (lump-sum payment) function in LoanServ. For rehabilitation projects exceeding 30 days and those requiring multiple draws the purpose code on the registration screen in UniFi must be coded 40 (construction loan). This code will transfer to the new loan screen in LoanServ which should reflect a close code of “5” and must be verified at loan closing. When ordering multiple draws for loan-grant combinations, additional draws on the grant portion cannot be performed once the loan has been fully disbursed.

Loan funds will typically be disbursed before grant funds; however, this may not always be feasible as grant funds are disbursed to remove safety and health hazards or make the dwelling accessible for household members with a disability. Funds remaining after completion of work should always be returned to reduce the grant balance first when feasible.

In some instances, a supervised bank account may be necessary for multiple disbursements. Please refer to RD Instruction 1902-A for Supervised Bank Accounts (SBA) requirements. The Washington, D.C. based AgFed Credit Union is equipped to establish SBAs virtually nationwide.

**C. Cancellation of Funds**

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

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

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

HB-1-3550  
Attachment 12-A  
Page 1 of 1

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

Topic	Section 504 Loan	Section 504 Grant
Use of Funds	May be used to: (1) improve or modernize; (2) make dwelling decent, safe, and sanitary; (3) remove hazards. Cannot be used for acquisition or new construction. Specific prohibitions are listed in Paragraph 12.2 A.	May be used only to remove health and safety hazards or to make dwelling accessible to household member with disabilities.
TRID Disclosure Requirements	504 indebtedness of \$7,500 or more require the issuance of Non-Purchase Loan Estimate and Closing Disclosure.  504 indebtedness of less than \$7,500 require the issuance of Form RD 1940-41 "Truth in Lending Statement."  A list of Settlement Service Providers is only required when a Loan Estimate is issued.	N/A
Credit Reports	Required for all applicants. but no fee charged. Loans \$7,500 or greater require a TMCR.	N/A
Age of Applicant	N/A	62 or older
Leaseholds	The property must be covered by a lease with an unexpired portion of not less than 2 years beyond the term of the promissory note.	The remaining lease period must be at least 5 years from closing.
Appraisals	Fee charged if appraisal completed.	N/A
Maximum Assistance	\$40,000 outstanding at one time.	\$10,000 lifetime limit.
Security	If the total Section 504 indebtedness is greater than or equal to \$7,500, a mortgage is required.	No security required.
Insurance	If indebtedness greater than \$15,000, property insurance is required. Flood insurance is required in Special Flood Hazard Areas (SFHA) for substantial improvements per Chapter 7 Paragraph 7.12 B of this Handbook.	Flood insurance is required in SFHA for substantial improvements per Chapter 7 Paragraph 7.12 B of this Handbook.

## ATTACHMENT 12-B

### DIFFERENCES BETWEEN SECTION 502 AND SECTION 504 LOANS

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

Topic	Section 502 Loan	Section 504 Loan
<b>PROGRAM PURPOSES AND PRIORITIES</b>		
Program Purpose	Assist applicants who are not homeowners to become homeowners.	Assist current homeowners with necessary improvements and repairs.
Processing Priorities	Applications will be selected for processing using the priorities specified in Chapter 3 Paragraph 3.13 of this Handbook. Applications that meet special criteria are processed immediately.	Multiple priorities apply, but applications for assistance to remove health and safety hazards receive first priority processing.  Veterans' preference is used for applications with the equivalent priority status received on the same day.
<b>LOAN PURPOSES</b>		
Eligible Purposes	In general, funds may be used to buy, build, rehabilitate, improve, or relocate an eligible dwelling and provide related facilities for the borrower to personally occupy.  No initial loans for repair of manufactured homes.	Remove health and safety hazards. Repair or remodel dwelling to make more accessible and useable for a household member with a disability. General repairs to improve or modernize a home. Repair mobile or manufactured homes with a permanent foundation.
<b>APPLICANT ELIGIBILITY</b>		
Income	Applicant income must not exceed low-income limit at loan approval and must not exceed moderate-income limit at loan closing.	Applicant income must not exceed the very low-income limit at loan approval and closing.

Topic	Section 502 Loan	Section 504 Loan
<b>APPLICANT ELIGIBILITY</b>		
Credit Requirements	Credit history must demonstrate ability and willingness to pay. Costs for credit reports are charged to applicant.	Applicants must have a credit history that indicates a reasonable ability and willingness to meet debt obligations. Costs for credit reports are not charged to the applicant.
Asset Requirements	Applicants are required to contribute nonretirement assets exceeding \$15,000 (\$20,000 for elderly households) toward the purchase of the property.	Same as Section 502, except nonretirement assets include only assets that can be converted to cash within <u>60 days</u> .
Repayment Ability	Applicants must show repayment ability based on PITI and TD ratios.	Applicants must show repayment ability based on a TD ratio of 41% or less.
Ownership	The applicant need not own the property. A leasehold must have an unexpired term of at least 150% of the term of the mortgage, unless the loan is guaranteed by a public authority, Indian tribe, or Indian Housing Authority. No exceptions on ownership evidence.	The applicant must own the property. A leasehold must have an unexpired term of at least 2 years beyond the loan term. If standard evidence of ownership is unavailable, exceptions may be made.

Topic	Section 502 Loan	Section 504 Loan
<b>PROPERTY REQUIREMENTS</b>		
Area Loan Limit	Individual exceptions are allowed.	Individual exceptions are allowed.
Property Standards	The property must meet the Agency's site and dwelling standards.	The property: (1) need not be brought to Agency development standards; (2) need not have all hazards removed; <b>but</b> (3) must have all major hazards removed.
Appraisals	An appraisal is required when the debt is to be secured, and prior liens exceed \$15,000. Applicants are required to pay an appraisal fee which may be included in the loan.	An appraisal is <b>not</b> required unless an RD lien will secure the property. An appraisal is required when the total secured indebtedness (RD and non-RD) exceeds \$25,000. If under this threshold, the Loan Official will determine if an appraisal is needed. Applicants are required to pay an appraisal fee which may be included in the loan.
<b>LOAN TERMS</b>		
Interest Rate and Loan Terms	The applicable Rural Housing (RH) Section 502 low or moderate interest rate in effect at loan approval or closing, whichever is lower. Standard term is 33 years; some applicants may qualify for a 38-year term. Borrowers may be eligible for payment subsidies that reduce the effective interest rate.	1 percent interest rate and a standard loan term of 20 years.
Loan Amount	Total secured indebtedness must not exceed the area loan limit.	Total secured indebtedness must not exceed the area loan limit or the market value limitation. The outstanding balance on the sum of all Section 504 loans cannot exceed \$40,000.

Topic	Section 502 Loan	Section 504 Loan
<b>LOAN APPROVAL AND CLOSING</b>		
Loan Closing	Loans must be closed by a closing agent.	Loans of \$25,000 or less may be closed by the Loan Originator or a designee.
Security	First liens are generally required, but Agency interests may be subordinated in some circumstances.	First lien position is <b>not</b> required.

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## ATTACHMENT 12-C

### 504 SINGLE FAMILY HOUSING LOAN AND GRANT CHECKLIST

#### THIS CHECKLIST DOES NOT REPLACE THE RUNNING RECORD!

This document should be filed in under Folder A for an Electronic Customer File (ECF)

**Once clear, readable copies are uploaded and confirmed in ECF, the originals can be destroyed following the requirements of RD Instruction 2033-A (e.g., PII must be cross-cut shredded) except for the documents identified on the Index of Essential Records which are maintained in locking-type, fireproof filing cabinets/safes in accordance with RD Instruction 2033-A, 2033.6(b).**

**Applicant:**

**Co-Applicant:**

ECF – Electronic Customer File (refer to the ECF Classifications – Quick Reference Guide in SharePoint)  
RP – Responsible Party  
LO – Loan Originator  
LAO – Loan Approval Official

ECF	RP	DATE	
<b>PREQUALIFICATION PROCESSING</b>			
<i>Discuss the results with the potential applicant and emphasize that the results are informal and unbinding. As applicable, consider the below when discussing the results and refer to Attachment 3-F for guidance on addressing negative results.</i>			
B	LO		Form RD 3550-35, “Section 504 Home Repair Loan and Grant Program Intake Form” and RD 3550-1, “Authorization to Release Information” (HB-1, 3.5)
C	LO		Check Treasury’s DNP portal, and file in applicant ECF file (HB-1, 4.11, 12.5 B)
C	LO		Check LoanServ’s “SSN CROSS REFERENCE” softlink key (HB-1, 4.11, 12.10 C)
C	LO		Infile Credit Report (HB-1, 3.3, 4.11)
C	LO		Verify eligibility of subject property. (HB-1, 5.1) <a href="https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do">https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do</a>
<b>APPLICATION PROCESSING</b>			
<i>Review application for completeness within 3 business days of receipt. Call or write the applicant to request any missing information. Follow up with a letter advising applicant of a 15-day deadline for submission or the application will be withdrawn, or a 30-day deadline to obtain repair estimate(s). Mark files as inactive until complete. (HB-1, 3.6)</i>			
C	LO		Form RD 410-4, “Uniform Residential Loan Application,” include information sheet similar to Attachment 3-D & RD 3550-1, Authorization to Release Information (HB-1, 3.5)
C	LO		<b>If a secured loan application is subject to TRID, forward the following documents as applicable to the applicant within 3 business days of receipt of the application (HB-1, 3.8):</b>
			HB Letter 5 (3550), Cover Letter to Truth in Lending Disclosure
			CFPB’s “Your home loan toolkit: A step-by-step guide”
			CFPB’s Non-Purchase Loan Estimate form
			Attachment 3-I, Settlement Service Providers List & Mortgage App. Related Disclosures

C	LO		For an unsecured loan, send RD 1940-41, "Truth in Lending Statement."	Date Returned:	
C	LO		Check Treasury's DNP portal, and file in applicant ECF file (HB-1, 4.11, 12.5B)		
C	LO		Check LoanServ's "SSN CROSS REFERENCE" softlink key (HB-1, 4.11, 12.10 C)		
C	LO		Check list for 504 Grant recipients born prior to 1936 for prior assistance and document in running record (HB-1, 12.10C)		
C	LO		Check address in LoanServ's "CUS XREF ID" softlink key for prior grant assistance on the dwelling (HB-1, 12.10C)		
C	LO		Identification and Verification of age (grants only) (HB-1, 4.21)		
C	LO		Evidence of age	Taxpayer's ID number	Photo ID
D5	LO		If not a citizen, see attachment 4-D (S.A.V.E.) (HB-1, 4.20)		
E	LO		Evidence of homeownership and occupancy: (copy of Deed, RE Tax Bill, etc.) (HB-112.4F)		
C	LO		Verify eligibility of subject property. (HB-1, 5.1) <a href="http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do">http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do</a>		
C	LO		Enter application complete date in stage updating of UniFi and on Form RD 410-4		
C	LO		Funds Available; send HB Letter 11, Request Information (HB-1, 3.13)		
C	LAO		Funds Not Available; send HB Letter 2, Funds Not Available (HB-1, 3.12)		
D5	LAO		Send HB Letter 3-A (3550) Waiting Period (Funds Not Available) if funds are not available 6 months after sending HB Letter 2 (Signed by LAO) (HB-1, 3.14)		
D5	LAO		Send HB Letter 3-B (3550) Waiting Period (Extended Processing Timeframe) if eligibility determination is not made within 30 days of receipt of complete application (Signed by LAO) (HB-1, 3.7)		
			Send subsequent HB Letter 3-B (3550) if eligibility determination is not made within 6 months of complete application (Signed by LAO) (HB-1, 3.14)		
<b>INCOME</b>					
D1	LO		Paycheck stubs (4 most recent & consecutive weeks)-Only for employment which is not seasonal in nature. Seasonal employment is verified using the last two years of complete tax returns with W-2s and applicable schedules. (HB-1, 4.3)		
D1	LO		Oral Verification of Employment – if applicable (HB-1,3.15 A.3.)		
D1	LO		Form RD 1910-5, "Request for Verification of Employment" – if paystubs are not available LO (HB-1, 4.3):		
			If no response in 14 days, call employer to follow up and document the discussion		
D1	LO		Other Income/ documentation (HB-1, 4.3, 4.5):		
			Public Assistance		Self-employment income
			Child Support/Alimony		Social Security/ VA Benefits
			Unemployment Benefits		Pensions/ Annuities
			Latest two Federal Income Taxes with W-2s and applicable schedules		
			Tax transcripts directly requested and obtained by applicant using IRS Form 4506-T, Request for Transcript of Tax Return, if additional income validation was needed.		
			Other		
D1	LO		Form RD 3550-4, "Employment and Asset Certification"		
D1	LO		Separation/Divorce/Paternity/Property Settlement Agreement, if applicable		
<b>DEDUCTIONS</b>					
D2	LO		Deduction documentation (HB-1,4.4):		
			Childcare		Disability Assistance Expense
			Elderly/Disabled (RD 1944-4, if applicable)		Full-Time Student Status
			Medical Expenses		Minor Dependent
			Other		



### ASSETS

D3	LO		<b>Most recent bank account statements covering at least a two-month period</b> – statements must include the transaction history, review any recurring deposits or debits, and obtain explanation for large deposits (HB-1, 4.5)
D3	LO		<b>Form RD 1944-62 “Request for Verification of Deposit”</b> – if statements are not available or the accuracy of the applicant’s self-certification or statements are questioned (HB-1, 4.3)
D5	LO		<b>Form RD 3550-2 “Request for Verification of Gift/Gift Letter,”</b> if applicable (HB-1, 4.3)
D3	LO		<b>Land and Other Real Estate</b> , if applicable (HB, 4.5, Exhibit 4-3)
D3	LO		<b>Most recent retirement fund statements cover at least a two-month period</b> (considered for income calculations, but not for down payment) (HB-1, 4.6, 4.7)
D3	LO		<b>Other Assets</b> (HB-1, 4.5, Exhibit 4-3)

### CREDIT

C	LO		Infile Credit Report (HB-1, 3.3, 4.11)				
D4	LO		Tri-Merge Credit Report (TMCR) documentation (Only loans\$7,500 or greater) [no grants] – no charge to the applicant) (HB-1, 4.12 & 12.5):				
			Report:	Requested		Received	
			Document in item 19 of RD 410-4				
			Credit Scores:	Applicant		Co-Applicant	
D4	LO		Credit score is less than 620 (HB-1, 12.5B):				
			Nontraditional credit verifications				
			Applicant Reference Letter (RD410-8)				
			Credit History Worksheet (1944-61)				
			Credit Letter of Explanation, if applicable (HB-1, 4.12)				

### OTHER

D1	LO		<b>Automated Worksheet for Computing Income and 504 Eligibility</b>
D5	LO		<b>Document repayment ability</b> , TD ratio does not exceed 41% without documented compensating factors (HB-1, 12.8).
D5	LO		<b>Document applicant lacks personal resources and meets non-retirement asset limitations (\$15,000; \$20,000 for elderly households)</b> (HB-1, 4.6, 6.10, and 12.5 C)
F	LAO		<b>If applicant is not eligible, send HB Letter 15 (3550), Standardized Adverse Decision Letter</b> with review and appeal rights (must be signed by the LOA) (HB-1, 1.9)
D5	LAO		<b>Document Eligibility on originally submitted Application</b> - item 17. Update UniFi/Stage Updating
D5	LAO		<b>Handbook Letter 16B, Self-Help Applicant Eligibility-Owner Occupied Rehabilitation</b> issued when loan and/or grant eligibility has been determined.
D5	LO		<b>Form RD 3550-23, “Applicant Orientation Guide”</b> (HB-1, 4.26 loans only)
C	LO		If changed circumstances occur, issue revised Loan Estimate within <u>3 business days</u> of receiving new information, but no later than <u>4 business days</u> prior to loan consummation.

PROPERTY ELIGIBILITY			
D1	LAO		<b>Property eligibility determination</b> (document with Automated Worksheet for Computing Income and 504 Eligibility) <b>(HB-1, 12.4) Method used:</b> (site visit, online resources) <u>Online Resources can be uploaded to Property Visit &amp; Documentation for Repair</u>
F	LAO		<b>If denying property, send HB Letter 15 (3550), Standardized Adverse Decision Letter</b> with Review and appeal rights (must be signed by the LOA) <b>(HB-1, 1.9 &amp; 8.2)</b>
E	LO		<b>Verify the subject property's address using the USDA address verification site. Result code must be 1 or 2; or researched, verified, and documented if not. Enter verified Address in UniFi. (HB-1, 5.1)</b> ( <a href="https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do">https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do</a> )
E	LO		<b>Checklist for Evaluation of Existing Dwelling (HB-1, 12.4, Attachment 12-D)</b> , if applicable.
E	LO		<b>Photographs of property and essential repairs</b> (before and after). <b>(HB-1, 12.13)</b>
E	LO		<b>Appraisal Report, or document Statement of Value (HB-1, 12.6B)</b>
E	LAO		<b>Form RD 1922-15, "Administrative Appraisal Review for Single Family Housing"</b> - within 7 days of appraisal <b>(HB-1, 5.19); Reviewed and Accepted _____ (initial and date)</b>
E	LO		<b>Notify Applicant of appraisal results and provide a copy of the appraisal.</b> If making an adverse decision on the appraisal, send either <b>HB Letter 17 or HB Letter 18</b> , as applicable, along with a copy of the appraisal.
E	LO		<b>Lead Based Paint (LBP) Compliance Key and Print Out (houses built prior to 1978)</b> ( <a href="https://leadpaint.sc.egov.usda.gov/LBPWeb/lbpQuestionnaire">https://leadpaint.sc.egov.usda.gov/LBPWeb/lbpQuestionnaire</a> )
E	LO/ LAO		<b>RD Instruction 1970-B, Exhibit D, "Environmental Checklist for Categorical Exclusions" or RD Instructions 1970-C, Exhibit E "Guide for Reviewing Environmental Assessments</b> (as applicable) <b>(1970-B &amp; HB-1, 5.8)</b>
E	LO		<b>When applicable, consult with State Historic Preservation Office (SHPO) for properties located in, or eligible for, listing on the National Register of Historic Places or with Tribal Historic Preservation Officer (THPO) for properties located on Tribal land or Indian Country.</b>
E	LO		<b>FEMA's Standard Flood Hazard Determination Form (HB-1, 5.8 &amp; 1970-F)</b> ( <a href="https://www.floodcert.com">https://www.floodcert.com</a> )
E	LO		<b>FEMA's Elevation Certificate Form, (HB-1, 5.8 &amp; 1970-F)</b> , if substantial rehabilitation ( <a href="https://www.fema.gov/glossary/elevation-certificate">https://www.fema.gov/glossary/elevation-certificate</a> ) <b>Private Party Notice Regarding Flood Hazards, as applicable (HB-1, 5.8 &amp; 1970-F)</b>
E	LO		<b>Form RD 3550-6, "Notice of Special Flood Hazards, Flood Insurance Purchase Requirements, and Availability of Federal Disaster Relief Assistance," as applicable</b> (mail 10 days prior to closing) <b>(HB-1, 5.8)</b>
CONSTRUCTION			
E2	LO		<b>Check contractor(s) in the DNP portal whose contracts are equal to or greater than \$25,000 and place copies in file (1940-M)</b>
E2	LO		<b>Attachment 12-F. Pre-Construction Conference (HB-1, 12.4)</b> (at or before closing)
E2	LAO		<b>Form RD 1924-7, "Contract Change Order,"</b> if applicable
CONTRACTS \$10,000 OR LESS			
E2	LO		<b>Review detailed estimate(s) from contractor(s) itemized costs to include labor and materials (HB-1, 5.25) or use 1924-6, Construction Contract and RD 1924-7, Contract Change Order, if applicable.</b>
E2	LO		<b>Form RD 1924-1, "Development Plan"</b>
E2	LO		<b>Form RD 1924-9, "Certificate of Contractor's Release"</b>

E2	LO		Form RD 1924-10, "Release by Claimants," if applicable
E2	LO		Form RD 1924-11, "Statement of Labor Performed for each worker involved in performing borrower method paid labor"
E	LO		Pictures of repairs before and after
E2	LO		Form RD 1924-19, "Builder's Warranty" (HB-1, 5.25), if applicable (HB-1, 12.13 C)
<b>CONTRACTS GREATER THAN \$10,000</b>			
E2	LO		Form RD 1924-6, "Construction Contract"
E2	LO		Form RD 402-1, "Deposit Agreement" and RD 402-2, "Statement of Deposits and Withdrawals," if applicable
E2	LO		Form RD 1924-12, "Inspection Report". Third Party Inspections, or alternative method (HB-1, 12.13)
E2	LO		Form RD 1924-9, "Certificate of Contractor's Release"
E2	LO		Form RD 1924-10, "Release by Claimants," if applicable
E2	LO		Form RD 1924-11, "Statement of Labor Performed" (borrower method only)
E2	LO		Form RD 1924-19, "Builder's Warranty" (HB-1, 5.25), if applicable, (HB-1, 12.13 C)
<b>UNDERWRITING/APPROVAL</b>			
D1	LO		Reverify income - if over 120 days old (HB-1, 8.6)
DI	LO		Automated Worksheet for Computing Income and 504 Eligibility-if income reverified
C	LO		Check Treasury's DNP portal, and file in applicant ECF file (HB-1, 4.11, 12.5 B)
	LO		Verify UniFi Program Type Code (must match income type)
			Program Type Code:
F	LO		Update all screens in LoanServ before uploading file; check Display History Screen for correct loan / grant amount
F	LO		Direct-US Findings Report (optional)
F	LAO		If rejected, use HB Letter 15 (3550), Standardized Adverse Decision Letter, and attach review & appeal rights (HB-1, 1.9 & 8.2)
F	LO		Obligate through LoanServ (HB-1, 8.7).
F	LAO		Form RD 3550-7, "Funding Commitment and Notification of Loan Closing" – issued when <u>secured</u> loan funds are obligated in LoanServ (if not accepted and returned in 15 days, deobligate) (HB-1, 8.2)
F	LAO		Handbook Letter 12 (3550), Notification of Approval – issued when <u>unsecured</u> loan and/or grant funds are obligated in LoanServ.
F	LO		If changed circumstances occur, issue revised Loan Estimate within 3 business days of receiving new information, but no later than 4 business days prior to loan consummation.
<b><u>CLOSING</u></b>			
G	LO		Check Treasury's DNP portal for closing agent (Label as Closing Agency using ECF Title field) (HB-1, 4.11, 12.5B)
G	LO		Form RD 1927-4, "Transmittal of Title Information" (HB-1, 8.4)
G	LO		Title Insurance required for loans if the total outstanding balance on Section 504 loans is greater than \$25,000 (HB-1, 8.4)
G	LO		Form RD 1927-9, "Preliminary Title Opinion" (if the total outstanding balance on Section 504 loans is greater than \$25,000), as applicable (HB-1, 8.4)

G	LO		<i>Hazard Insurance Binder &amp; Receipt for 1st year premium for loans \$15,000 or greater (HB- 1, 7.12)</i>
G	LO		<i>Flood Insurance Binder &amp; Receipt for 1st year premium required for properties located in Special Flood Hazard Area (Loans and grants with substantial improvement)</i>
G	LO		<i>Review Title Insurance Binder/Preliminary Title Opinion and verify legal description is correct If exceptions noted affect the security value, loan cannot close (HB-1, 8.5)</i>
G	LAO		<i>Form RD 3550-15, "Tax Information" – loans \$15,000 or greater (HB-1, 7.10)</i>
G	LO		<i>Form RD 3550-9, "Initial Escrow Account Disclosure Statement", loans \$15,000 or greater (HB-1, 7.5 &amp; 12.11)</i>
G	LO / LAO		<i>Form RD 3550-25, "Loan Closing Instructions and Loan Closing Statement" – if the total outstanding balance on Section 504 loans is greater than \$25,000 (should include documents to be signed at closing) (HB-1, 8.11)</i>
G	LO		<i>Form RD 3550-17, "Funds Transmittal Report" for tax service &amp; appraisal fees, escrow funds, etc. (copy in Collections Operational File) (1951-B, if applicable)</i>
G	LO		<i>Form RD 3550-19, "Transmittal-Closing Documents" &amp; Attachments, as applicable (Grant documents are not sent to Servicing Office) (HB-1, 8.11)</i>
G	LO		<i>Form RD 410-4, "Uniform Residential Loan Application" - PRINTED FROM UniFi</i>
G	LO		<i>Form RD 1927-5 "Affidavit Regarding Work of Improvement" (if required by State Supplement) send blank to closing (1927-B, 1927.58)</i>
G	LO		<i>Form RD 1940-16, "Promissory Note" (original in safe) - all loans (HB-1, 8.9)</i>
G	LO		<i>Non-Purchase Closing Disclosure (HB-1, 8.5), review for compliance with tolerance limits (secured loans)</i>
G	LO		<i>Form RD 1940-41, "Truth in Lending Statement," if applicable for an unsecured loan (HB-1, 3.8B)</i>
G	LO		<i>Form RD 1940-43, "Notice of Right to Cancel" - if secured loan (HB-1, 8.6)</i>
G	LO		<i>Form RD 3550-14, "Real Estate Mortgage or Deed of Trust for (State)" – (Section 504 indebtedness of \$7,500 or greater – sent blank) (HB-1, 8.11)</i>
G	LO		<i>Form RD 1927-10, "Final Title Opinion," if applicable</i>
G	LO		<i>Form RD 1927-8, "Agreement with Prior Lienholder, "if applicable (HB-1, 8.6)</i>
G	LAO		<i>Form RD 3550-24, "Grant Agreement" (original in safe; copy in case file) (HB-1, 12.10)</i>
G	LO		<i>Form RD 3550-29, "Document Errors and Omissions Agreement" (HB-1. Attachment 8-A)</i>
G	LO		<i>Forms RD 3550-10, "Condominium Rider" or RD 3550-11, "Planned Unit Development Rider" (if applicable)</i>
<b><u>POST CLOSING</u></b>			
G	LO		<i>Verify closing documents faxed to Servicing Office in required time frame (HB-1, 8.11)</i>
			<i>Verify proper lien position.</i>
			<i>Post 1 month follow-up for recorded Real Estate Mortgage.</i>
			<i>Post follow-up for Title Insurance Policy (60 days) or Final Title Opinion (14 days). (If not received, contact Closing Agent by mail with a copy of the letter to the insurance company.)</i>
H	LO		<i>Activate loan (wait until the rescission period has expired, if applicable)</i>
H	LO		<i>Review final Loan Estimate &amp; Closing Disclosure for tolerance violations. Cure violation within 60 days of closing.</i>
H	LAO		<i>Form RD 3550-25 – Loan Approval Official approves after all forms are returned, reviewed, and correct (HB-1, 8.11 secured loans)</i>
H	LO		<i>Delinquent/Lienholder Screen – complete LoanServ screen for each leveraged partner – Include forgivable loans from CDCs and Non-Profits</i>

## ATTACHMENT 12-D

### CHECKLIST FOR EVALUATION OF EXISTING DWELLING

Owner-Occupant Name

Property Address

Co-Owner Occupant Name

Account Number

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

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

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

**Additional Comments:** \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Reviewer Signature

\_\_\_\_\_  
Date

\_\_\_\_\_

**ATTACHMENT 12-E**  
**CHECKLIST OF ITEMS TO ACCOMPANY**  
**APPLICATION FOR HOME REPAIR LOAN AND/OR GRANT**  
**FUNDS**

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**You, as the applicant,** need to simultaneously submit the applicable items below when applying for the Single-Family Housing (SFH) 504 Repair program. All applicable items requested below should be submitted. If any item, information and/or signature is missing, your application will be considered incomplete, and you will be contacted to provide the missing items. **If the missing items are not provided within the specified timeframe 15 days (30 days for estimates), your application will be considered incomplete and will be withdrawn from consideration.** To avoid delay or withdrawal, please verify that your loan application is fully complete prior to submission.

**Check the boxes below when completed:**

- ☐ This checklist with the applicable and included items checked.
  - ☐ Form 410-4, "Uniform Residential Loan Application" you **must** complete all sections and sign/date pages 5 & 8.
  - ☐ Verification of identity: you **must** provide a copy of your government-issued picture identification (ID) along with evidence of age. Standard verifications are a driver's license or a passport. Contact us if you do not have these standard verifications to discuss possible alternatives.
  - ☐ Verification of T-Nonimmigrant Status (including T1, T2, T3, or T4), if applicable, as this status may not be reflected in DHS's United States Citizenship and Immigration Service (USCIS) SAVE database used by the Agency.
  - ☐ Verification of taxpayer ID number: you **must** provide verification of your full taxpayer ID number (i.e., no hidden or suppressed numbers) using evidence such as your pay stubs or tax returns. A copy of your social security card is only needed if you do not have any other evidence of your full taxpayer ID number.
  - ☐ Form 3550-1 "Authorization to Release Information". Each adult member of the household **must** sign/date a separate release form.
  - ☐ Form 3550-4, "Employment & Asset Certification" for each adult household member.
  - ☐ List your personal email address(es) below if you authorize the Agency to contact you via email. The Agency password protects emails containing personal identifiable information.
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- 

**INCOME:**

- ☐ Verification of **all household income**. To qualify for the program, a household's adjusted income must be within the established income limit based on size and location. Below are some examples of income that may be applicable to all household members and what should be provided to the Agency.
-

**INCOME (continued):**

- ☐ Last four consecutive weeks of pay stubs.
- ☐ Recent benefit statements for regular unearned income (such as social security, public assistance, retirement income, etc.).
- ☐ Last 12-month payment history of alimony and/or child support received as provided by the court appointed entity responsible for handling payments. If this is not available, a copy of the separation agreement or divorce decree.
- ☐ Your last two signed Federal Income Tax Returns with all applicable tax return schedules. Also provide:
  - All W-2s, 1099s, and other forms attached to the returns.
  - If filed electronically, include a copy of the signature page with the Self-Select PIN, confirmation that the return was accepted, or evidence that it was filed by an authorized E-File provider.
  - If an applicant is not required by the IRS to file taxes; provide a letter of explanation that supports exemption from filing.
- ☐ For each non-retired applicant, a written explanation of employment history of less than two years or employment gaps in excess of 30 days within the last two years.

**ASSETS, CREDIT, OTHER DOCUMENTATION:**

- ☐ For **each household member**, a copy of their two most recent asset/bank statements. (Note that if you are obtaining this information through online banking, you should print your bank statement, as opposed to printing the online transaction history.)
- ☐ For **each applicant**, a written explanation for late payments, collections, judgments, or other derogatory items in their credit history of which they may be aware. If applicants are unsure what their credit history looks like, they can obtain a free credit report by calling 1-877-322- 8228 or logging into <https://www.annualcreditreport.com>. Individuals are entitled to receive one free credit file disclosure every week from each of the nationwide consumer credit reporting companies – Equifax, Experian and TransUnion. This free report cannot replace the credit report that the Agency will obtain to determine eligibility.
- ☐ The applicant's non-purchasing spouse must provide a credit report or reports from each of the three nationwide consumer credit companies – Equifax, Experian, and TransUnion to verify obligations if located in a community property state. Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Washington and Wisconsin. Puerto Rico and several Indian jurisdictions allow property to be owned as community property. Alaska is an opt-in community property state, where property is separate unless both parties agree to make it community property through a community property agreement or a community property trust.



**ASSETS, CREDIT, OTHER DOCUMENTATION (continued):**

- ☐ For a household member who is a full-time student and 18 years of age or older, a copy of their school transcript.
- ☐ If applicable, provide written evidence of childcare expenses for dependents 12 years of age or younger.
- ☐ If applicable, evidence of out-of-pocket annual medical expenses (for applicants 62 years of age and older, or individuals with a disability) who wish to be considered for a deduction to household income.

**PROPERTY INFORMATION:**

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

## ATTACHMENT 12-F

HB-1-3550  
Attachment 12-F  
Page 1 of 2

### PRE-CONSTRUCTION CONFERENCE

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Owner Name(s): \_\_\_\_\_ Contractor: \_\_\_\_\_

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

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

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

#### **Responsibilities:**

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

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

**Check the applicable:**

- ☐ Form RD 1924-25, "Plan Certification" is required and has been completed; or  
☐ Form RD 1924-25, "Plan Certification" is not required.  
☐ Contractor will obtain applicable building and occupancy permits; or  
☐ No building or occupancy permits are required.

The presence of Lead-Based Paint (LBP) is presumed. Contractor will use EPA certified Safe Work Practices in accordance with 24 CFR 35.1350, HUD LBP regulations during completion of work to be performed. Upon completion of the contract, the area in which the work was performed will be subject to an LBP Clearance Test, as performed by a licensed LBP Inspector or Risk Assessor. Should the test results indicate an unacceptable level of LBP residue, the Contractor will be responsible for additional cleanup, and providing an acceptable clearance report from an LBP Inspector or Risk Assessor to RD. No payment for work will be made until an acceptable clearance report is provided; or

- ☐ No LBP Clearance Test is required.  
☐ No subcontractors will be utilized; or  
☐ A list of subcontractors will be provided by the Contractor and is attached.

Sign below if the conference was held in person or acknowledge the conference via email if held by telephone/virtual.

Owner: \_\_\_\_\_ Co-Owner: \_\_\_\_\_

Contractor: \_\_\_\_\_ RD Representative \_\_\_\_\_

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