

RD AN No. 4701 (1980-D)
December 28, 2012

TO: State Directors
Rural Development

ATTENTION: Housing Program Directors,
Guaranteed Loan Coordinators,
Area Directors and Area Specialists

FROM: Tammye Treviño *(Signed by Joyce Allen)* for
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guarantee Loan Program
In-Ground Swimming Pools

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to clarify that in-ground swimming pools are permitted under the Single Family Housing Guaranteed Loan Program (SFHGLP) as long as loan funds are not used to finance the contributory value of the swimming pool.

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 4608 (1980-D), dated November 14, 2011, which expires on November 30, 2012.

EXPIRATION DATE:
December 31, 2013

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

7 CFR Part 1980, Subpart D (also known as RD Instruction 1980-D) at Section 1980.311(a) (7), states “Conditional Commitments will not be issued if loan funds are to be used . . . [to] purchase a dwelling with an in-ground swimming pool.”

In-ground swimming pools may or may not contribute value to a modest home. This AN allows for properties with in-ground swimming pools to be guaranteed by the SFHGLP as long as the contributory value of the swimming pool is not included in the guaranteed loan amount.

IMPLEMENTATION RESPONSIBILITIES:

State Directors or their designees can approve the purchase of dwellings that include an in-ground swimming pool as long as the contributory value of the swimming pool is not included in the guaranteed loan amount. Such approval will not violate RD Instruction 1980-D, Section 1980.311(a) (7).

Appraisal Report

Typically, a swimming pool has contributory value and adjustments are made for comparable sales that do not have swimming pools. It is possible for a swimming pool to not have a contributory value. The appraiser should address this issue in the appraisal report. An appraiser may not indicate that a swimming pool has no contributory value simply because “the loan is a Rural Development guaranteed loan.” Under the Uniform Standards of Professional Appraisal Practice, licensed or certified appraisers should address the swimming pool and its contributory value relative to the market. For example, if the swimming pool has a torn lining, and is not usable, the appraiser may conclude that it has no contributory value.

Maximum Loan Amount

Lenders and Rural Development should ensure that the contributory value of the in-ground swimming pool is not included in the guaranteed loan amount. The net appraised value of the property, plus any amount of the up-front guarantee fee financed, is the maximum loan amount for which Rural Development will issue Form RD 1980-18, “Conditional Commitment for Single Family Housing Loan Guarantee.” **The contributory value of the swimming pool must be deducted from the appraised value before computing the maximum loan amount.**

Example: Assuming a \$100,000 appraised value with a swimming pool for which the contributory value is \$10,000, the contributory value of the swimming pool would reduce the maximum loan amount to \$90,000. In this example the maximum loan amount must be computed based on \$90,000, in order to exclude the contributory value of the swimming pool from the loan amount. The current up-front guarantee fee for purchase transactions is 2 percent, an amount which can be included in the loan. The maximum loan amount in this scenario, which includes financing of the entire up-front guarantee fee, would be \$91,836.73.

Illustration

Step One – Calculate the Net Appraised Value (excludes contributory value of in-ground pool)

Appraised value		\$100,000
Contributory value of the in-ground swimming pool	-	<u>\$10,000</u>
Net appraised value (less contributory value of pool)	=	\$90,000

Step Two – Calculate the Maximum Loan Amount (including the entire 2 percent upfront fee in the loan amount)

$$\begin{aligned} &\text{Net appraised value} / (1 - \text{decimal equivalent of upfront fee percent}) = \text{Max loan amount} \\ &\text{or} \\ &\$90,000 / .98^* = \$91,836.73 \text{ maximum loan amount} \end{aligned}$$

* $1 - .02$ (decimal equivalent of 2 percent upfront fee) = .98

Any questions concerning this AN should be addressed to Josh Rice at (304) 872-1731, ext. 101, via email at joshua.rice@wdc.usda.gov, or to the Guaranteed Loan Division at (202) 720-1452.