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**USDA** United States  
Department of  
Agriculture

**Rural Development**

**Section 502 Direct  
Certified Loan Application Packaging Process**

Presented by the Single Family Housing Direct Programs  
Revision Date: 3-21-2018

### Training Objective

- Provide guidance related to the certified loan application packaging process (aka the certified packaging process)
  - Final rule: Published in the Federal Register (FR) April 29, 2015 (80 FR 23673)
  - Final rule's effective date: May 19, 2016 (as announced in 81 FR 8389)
    - 7 CFR 3550.75
    - Handbook-1-3550, Chapter 3, Attachment 3-A

Today we will start with a recap of the certified packaging process requirements and discuss how you can partner with us to provide more homeownership opportunities in your community through this process.

### Purpose of the Certified Packaging Process

- Knowledgeable third parties engaged in the certified packaging process help ensure that:
  - Rural residents are made aware of homeownership opportunities offered through the Agency
  - Potential applicants are guided through the application process
  - Application packages received by Rural Development (RD) have undergone a Quality Assurance Review (QAR)

There are several benefits to working with partner agencies to deliver the 502 program. Using the certified packaging process, partner agencies which are already located in rural areas and are often working with clients through their credit counseling or homeownership education programs, make rural residents aware of the Agency's homeownership opportunities for households below moderate incomes.

Additionally, packagers assist potential applicants with the application process by gathering the necessary documents, assisting with completion of the application, reviewing the documentation to determine if the potential applicant may qualify, and providing counseling to those who may not yet be ready for homeownership.

For packagers working with an intermediary, the application goes through a Quality Assurance Review (QAR) by the intermediary before it is submitted to RD. This QAR ensures that applications received by the Agency are complete, and ready for processing.

### Why partner with third parties?

- Historical Agency staffing losses in SFH Programs
- Closure of Field Offices/lack of presence in many rural areas
- Partnership with non-profits working in rural areas expands RD's "reach"
- RD staff can focus more on loan making activities

You may be wondering, why do we need to partner with other agencies to work with customers? That's a great question! For those of us who may have worked with RD for some time, this is definitely a shift from our traditional business model where Single Family Housing Field Staff were located in rural areas and provided intensive marketing and outreach to potential applicants, combined with a "supervised credit" approach to processing the application. In a sense, the staff "held the customer's hand" throughout the entire process. Unfortunately, with significant staffing losses in the last 10 years and resulting office closures, the Agency no longer has a strong presence in rural areas and a new business model was needed to effectively deliver the program. With the certified packaging process, not only do we have the opportunity to reach more potential applicants, but applications submitted to the Agency have received a QAR which allows RD staff to move quickly to an eligibility determination, rather than spending time reviewing applications for completeness. By partnering with packagers, RD Loan Originators and Loan Approval Officials can focus on loan making activities, rather than having their time split between loan making, marketing, and outreach.

502 Direct Program Packaging Types				
Packaging Type	Permissible Packaging Fee	Regulated by 7 CFR Part 3550	Eligible Loan Purpose?	Distinct Access to National Office Reserve?
Certified Packaging Body Via An Intermediary	Up to \$1,500 split between certified packaging body and intermediary	Yes 3550.52 (d)(6) and 3550.75	Yes	Yes
Certified Packaging Body Without An Intermediary	Up to \$1,250	Yes 3550.52 (d)(6) and 3550.75	Yes	No
Intermediary Acting As Certified Packaging Body	Up to \$1,250	Yes 3550.52 (d)(6) and 3550.75	Yes	Yes
Approved Non-Certified Application Packager	Up to \$350	Yes 3550.52 (d)(6)	Yes	No
Other Packaging Arrangements	Not regulated and discouraged when a fee is charged	No	No. The Agency will review the impact of the fee and will make the determination if it adversely impacts the applicant's qualification.	No

One of the most common questions about the packaging process relates to the packaging fee. For the purpose of this presentation, we will be focusing on the certified packaging process. However, as the table illustrates, there are multiple types of packaging. The packaging type determines the permissible packaging fee and whether or not the fee is an eligible loan purpose.

The combination of the certified packager and the qualified employer is referred to as the **certified packaging body**.

**Certified packaging body via an intermediary:** May charge up to \$1,500 (split between the packager and the intermediary), is regulated by 7 CFR 3550, the packaging fee is an eligible loan purpose, and the loan has distinct access to the National Office reserve.

**Certified packaging body without an intermediary (RD State Director opt-out or intermediary does not serve the state):** May charge up to \$1,250, is regulated by 7 CFR 3550, and the fee is an eligible loan purpose.

**Intermediary acting as a certified packaging body:** May charge up to \$1,250, is regulated by 7 CFR 3550, the fee is an eligible loan purpose, and has distinct access to the National Office reserve.

**Approved non-certified application packager:** May charge up to \$350, is regulated by 7 CFR 3550, and the fee is an eligible loan cost.

**Other packaging arrangements:** For instance, for-profit packagers. Not regulated and is discouraged when a fee is charged.

Note that Self Help projects are not identified as a packaged loan. This is because the Self Help grantees receive grant funds for their services as a Self Help provider and cannot charge an additional packaging fee to applicants participating in a Self Help project. However, Self Help grantees may become a certified packager for non-Self Help loan applications. And we do consider the work of Self Help grantees as a way to extend the Agency's services.

When the packaging fee is an eligible loan purpose, how is the packaging fee paid?

<b><u>Adequate appraised value</u></b>	<b><u>Inadequate appraised value</u></b>
<ul style="list-style-type: none"><li>• Fee may be included in loan provided:<ul style="list-style-type: none"><li>• Applicant has adequate repayment ability, and</li><li>• Loan does not exceed the area loan limit or the market value, whichever is lower</li></ul></li></ul>	<ul style="list-style-type: none"><li>• Reduce the fee to an amount that can be included in the Section 502 direct loan</li><li>• Seller concession</li><li>• Outside sources of funds (i.e. down payment or closing cost assistance)</li><li>• Paid by borrower</li></ul>

In either case, RD instructs the closing agent to pay the fee, which is paid at the time of loan closing

Pursuant to Agency regulations, Section 502 direct loan funds may be used to pay the packaging fee, provided the applicant has repayment ability and provided that this does not cause the loan to exceed the maximum allowable loan amount. It is understood that the maximum allowable loan amount is normally limited to 100 percent of market value as determined by an appraisal. The parties anticipate that not all loans will accommodate the maximum packaging fee. If the maximum packaging fee cannot be included in the Section 502 direct loan, the intermediary and/or the certified packaging body shall:

- assist the applicant in seeking funds from outside sources to cover the fee provided that those sources take the form of a soft, silent or forgivable subordinate affordable housing product.
- reduce the fee to an amount that can be included in the Section 502 direct loan or paid using a seller concession or outside sources of funds.

In no event will RD be responsible for paying the packaging fee to the extent that the maximum fee cannot be paid at closing using one of these alternatives.

The Agency shall ensure that the packaging fee is paid to the intermediary and/or the certified packaging body at loan closing to the extent that the fee can be included in the Section 502 direct loan.

### Who are the parties involved in the certified packaging process?

- **Agency-certified loan application packager:** An individual that meets the requirements of § 3550.75 (b)(1).
- **Qualified employer:** An affordable housing nonprofit organization, public agency, tribal housing authority, or State Housing Finance Agency that meets the requirements of § 3550.75 (b)(2).
- **Agency-approved intermediary:** An affordable housing nonprofit, public agency, or State Housing Finance Agency approved by RD to perform quality assurance reviews on packages prepared by certified packaging bodies.

The certified packaging process involves three parties with distinct roles: the certified packager, the qualified employer, and the intermediary. Each party's roles will be discussed in the following slides.



### What is the role of the certified packager?

- Market the Section 502 direct program
- Meet with potential applicants
  - Discuss income/credit/program requirements
  - If potential applicant does not appear eligible, provide counseling to assist with future eligibility
- For potential applicants who appear eligible
  - Submit all documentation to RD, via an intermediary (unless the certified packaging body was approved by the applicable RD State Director for an opt-out), necessary for an eligibility determination to be made
  - Once the Certificate of Eligibility has been issued, assist applicants to assemble the property information for submittal

The certified packager is the party who finds and assists potential applicants to determine if they appear eligible for the Section 502 direct program. If the potential applicant appears eligible, the certified packager assists the applicant with completion of the package to submit to RD via the intermediary (if required). If the potential applicant does not appear eligible, the certified packager may assist with credit counseling or help the potential applicant to address other criteria.

### How do you become a certified packager?

- Have at least one year of affordable housing loan origination and/or affordable housing counseling experience; and be employed by a qualified employer
- Complete an Agency approved 3-day classroom training course and pass the corresponding test
- Packagers have one year from the date of being added to the certified packaging process to complete the course and pass the test. They may charge the full fee and submit applications during this time, provided they are submitting via an intermediary, or have qualified for a State Director approved opt-out

A certified packager must have experience with either affordable housing loan origination or affordable housing counseling; must take the 3 day classroom session offered by NeighborWorks, the Housing Assistance Council, or the Rural Community Assistance Corporation (in conjunction with an RD trainer) and must pass the corresponding test. Once a packager is included in the certified process, they have one year to complete the course/exam and may package at the higher fee during this time.

The Memorandum of Understanding (MOU) signed by the intermediaries specifies that the intermediary will verify that the packager meets these requirements.

### What is a qualified employer?

- An affordable housing nonprofit organization, public agency, tribal housing authority, or State Housing Finance Agency that meets the requirements outlined in § 3550.75 (b)(2)
  - Tribal housing authorities and the States' Housing Finance Agencies are eligible and are exempt from certain requirements
- Is involved in the certified loan application packaging process under the Section 502 program
- Again, the combination of the certified packager and the qualified employer is referred to as the certified packaging body

Certified packagers must be employed or independently contracted with a qualified employer who meets the definition of 7 CFR 3550.75(b)(2) :

- (i) Be a nonprofit organization or public agency in good standing in the State(s) of its operation.
- (ii) Be tax exempt under the Internal Revenue Code and be engaged in affordable housing per their regulations, articles of incorporation, or bylaws.
- (iii) Notify the Agency and the applicant if they or their Agency-certified packager(s) are the developer, builder, seller of, or have any other such financial interest in the property for which the application package is submitted. The Agency may disallow a particular qualified employer and/or Agency-certified packager from receiving part or all of a packaging fee if the Agency determines that the financial interest is improper or the qualified employer or Agency-certified packager has a history of improperly using its position when there has been a financial interest in the property.
- (iv) Prepare an affirmative fair housing marketing plan for Agency approval as outlined in RD Instruction 1901-E (or in any superseding guidance provided in the impending RD Instruction 1940-D).
- (v) Submit applications to the Agency via an intermediary if determined necessary by the applicable RD State Director.

### How does an organization become an approved intermediary?

- The nonprofit or public agency must submit sufficient evidence to support meeting all of the stated criteria in HB-1-3550, Chapter 3, Attachment 3-A
- Applications are processed by the Single Family Housing Direct Loan Division, Headquarters office
- Applications are welcomed at any time

In order to be considered as an intermediary, the nonprofit or public agency must submit sufficient evidence to support meeting all of the stated criteria. Applications should be emailed to the Single Family Housing Direct Loan Division at [SFHDIRECTPROGRAM@wdc.usda.gov](mailto:SFHDIRECTPROGRAM@wdc.usda.gov). Applications are welcomed at any time.

### What is the role of the intermediary?

- Have a solid knowledge of current program requirements
- Conduct quality assurance reviews of loan application packages submitted by the certified packaging body within 5 business days of receipt
- Submit loan application packages electronically via eForms

### What is the role of the intermediary? (continued)

- Conduct outreach to recruit additional parties who may serve as certified packaging bodies within the state(s) they cover
- Provide supplemental training, technical assistance, and support to certified packaging bodies to promote quality standards and accountability
- Meet performance elements as well as the duties and responsibilities outlined in the Memorandum of Understanding (MOU)

Intermediaries assist with recruiting, training and overseeing certified packaging bodies. When a packager is not submitting complete applications, the intermediary provides the technical assistance and training to assist the packager to reach their goal of submitting complete applications. Intermediaries verify that a packager meets the certification requirements and has a satisfactory performance level.

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