Environmental and Insurance Requirements

Single Family Housing Guaranteed Loan Program
Training Objectives

• Where is the topic located?
  * 7 CFR Part 3555 and HB-1-3555
• Learning Checks
• Resources
Things change!

• Every effort has been made to ensure training references are accurate at the time of publication.

• Always reference the most recent USDA publications available online.
Guaranteed Loan Program Regulation

7 CFR Part 3555

• The regulation is the rule!
• 8 Subparts: A – H
• Appendix 1
7 CFR Part 3555

7 CFR Part 3555

Handbooks

HB-1-3555 SFH Guaranteed Loan Program Technical Handbook
HB-1-3555 Direct Single Family Housing Loans and Grants - Field Office Handbook
HB-2-3555 Direct Single Family Housing Loans and Grants - Centralized Servicing Center Handbook
HB-1-3555 SFH Guaranteed Loan Program Technical Handbook
HB-1-3560 MHF Loan Origination Handbook
HB-2-3560 MHF Asset Management Handbook
HB-3-3560 MHF Project Servicing Handbook
HB-1-3555 Direct Single Family Housing Loans and Grants - Field Office Handbook

Appendix 1 - 7 CFR part 3555
Appendix 2 - Forms and Instructions
Appendix 3 - Review and Appeals
Appendix 4 - Agency and Employee Addresses
Appendix 5 - Income Limits
Appendix 6 - Interest Assistance
Appendix 7 - Caivrs Access Instructions
Appendix 8 - EDI Documentation
Appendix 9 - Penalties
Appendix 10 - Unnumbered Letter and State Supplements
7 CFR Part 3555: 3555.5

3555.5 Environmental requirements.
(a) Policy.
(b) Regulatory references.
(c) Agency responsibilities.
(d) Lender and loan applicant responsibilities.
7 CFR Part 3555: 3555.5

(b): Regulatory References
• Additional USDA published environmental regulations may apply (RD Instruction 1970)
• New construction considerations are applicable
• Applicable to origination and servicing actions

(c): Agency responsibilities:
• USDA must ensure all applicable regulatory guidelines are met
7 CFR Part 3555: 3555.5

(d): Lender and loan applicant responsibilities

- Lenders must use due diligence to avoid hazards
- 1994 National Flood Insurance Reform Act will determine Special Flood Hazard Areas (SFHA)
- Lenders must be knowledgeable of USDA requirements
- Comply with federally mandated flood insurance requirements
7 CFR Part 3555: 3555.5

(d): Lender and loan applicant responsibilities

• FEMA National Flood Insurance Program (NFIP), Write Your Own, or private flood insurance required as applicable

• Purchased and maintained for life of loan

• New construction in SFHA ineligible unless: LOMA or LOMR obtained or alternative analysis plus eligible flood elevation certificate documented
Guaranteed Loan Program Technical Handbook

HB-1-3555

• Provides guidance to support the regulation
• HB is not the rule
• 20 Chapters
HB-1-3555 SFH Guaranteed Loan Program Technical Handbook

Table of Contents
Chapter 1 - Overview
Chapter 2 - Record Retention
Chapter 3 - Lender Approval
Chapter 4 - Lender Responsibilities
Chapter 5 - Origination and Underwriting Overview
Chapter 6 - Loan Purposes
Chapter 7 - Loan Terms and Conditions
Chapter 8 - Applicant Characteristics
Chapter 9 - Income Analysis
Chapter 10 - Credit Analysis
Chapter 11 - Ratio Analysis
Chapter 12 - Property and Appraisal Requirements
Chapter 13 - Special Property Types
Chapter 14 - Funding Priorities
Chapter 15 - Submitting the Application Package
Chapter 16 - Closing the Loan and Requesting the Guarantee
Chapter 17 - Regular Servicing-Performing Loans
Chapter 18 - Servicing Non-Performing Loans - Accounts with Repayment Problems
Chapter 19 - Custodial and Real Estate Owned Property
Chapter 20 - Loss Claims - Collecting on the Guarantee

Acronyms

Glossary

Appendix 1 - 7 CFR part 3555
Appendix 2 - Forms and Instructions
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Appendix 10 - Unnumbered Letter and State Supplements
HB-1-3555: Reference these HB Chapters

- Chapter 4: 4.4, Attachments 4-A and 4-B
- Chapter 6: 6.2 C
- Chapter 12: 12.10 A and B
- Chapter 15: 15.5 A 5
- Chapter 16: 16.2, 16.11 C 1, and 16.11 C 2
TIPS

• Underwriter = USDA Approved Lender
• USDA = not an underwriter
• Research Rule & HB questions: Table of Contents
• Research Rule & HB questions: Control + F
7 CFR PART 3555 / HB-1-3555
LEARNING CHECKS
Question Slide

“Topic”

• Question will be bulleted with scenario, or
• Include a statement/question

TRUE/FALSE or other answer options will be displayed
“Topic”

ANSWER: 7 CFR Part 3555 and HB-1-3555 references provided

X. Correct Response

• Additional guidance for clarification may be provided
LET’S GET STARTED
Environmental and Insurance

• Existing dwelling has private well and septic
• Distance between well and septic meets county code, but not current HUD Handbook required distances
• Property is eligible for guaranteed loan consideration

A. TRUE B. FALSE
Environmental and Insurance

ANSWER: 3555.201(b)(4), HB 12.6 A

A. TRUE

- Well and septic distances must meet current HUD Handbook OR state/county distance requirements
Environmental and Insurance

- Scott has a purchase contract for an existing 4 bedroom/3 bath home in a SFHA (flood zone)
- The lender must evaluate listings to document there are no other 4 bedroom/3 bath homes available in the community or within reasonable commuting distance outside of the SFHA

A. TRUE     B. FALSE
Environmental and Insurance

ANSWER: 3555.5(d)(5), HB 12.10 B

B. FALSE

• Scott has selected this home
• No additional research is needed, it is existing dwelling
• Obtain eligible flood insurance
Environmental and Insurance

- Phil wants to buy a home in a SFHA with a private septic
- What requirements may apply to the water source (public or private) for this home:

A. Home is serviced by public water
B. A cap must be placed on a well in the event of flood
C. Opening of well must be above BFE
D. All of the above
Environmental and Insurance

ANSWER: 3555.5(d)(1), HB 12.10 B

D. All of the above

- Water source must be protected in the event of a flood
- Flooded septic should not mingle with water source
Environmental and Insurance

- Jill is purchasing a new construction dwelling in a SFHA
- A LOMA has been documented
- The new construction dwelling is eligible for a guaranteed loan

A. TRUE     B. FALSE
Environmental and Insurance

ANSWER: 3555.5(d)(7), HB 12.10 B and 15.5 A 5

A. TRUE

New construction dwellings in SFHA:

• LOMA or LOMR or

• Eligible FEMA elevation certificate and alternative analysis
Environmental and Insurance

- Existing dwelling purchase: $135,000
- Located in SFHA
- Flood insurance deductible purchased: $2,500
- FEMA deductible allowed: $3,000
- This is an eligible deductible

A. TRUE    B. FALSE
Environmental and Insurance

ANSWER: 3555.5(d)(6), HB 12.10 B and 15.5 A 5

A. TRUE

Flood insurance deductibles may not exceed:
• $1,000 or 1% face value of policy (greater of) or
• State/Federal maximum deductibles (FEMA is a Federal program)
Environmental and Insurance

- Stafford Community Bank does not escrow for hazard insurance
- They are ineligible to participate in the guaranteed loan program

A. TRUE    B. FALSE
Environmental and Insurance

ANSWER: 3555.5(d)(1), HB 4.4

B. FALSE

Lender must ensure they:

• Meet Attachment 4-A
• Ensure borrower(s) execute Attachment 4-B
Environmental and Insurance

• Appraiser notes their observation of abandoned gas tanks and an oil spill on the subject property
• Lender’s underwriter is not required to perform an additional analysis, request inspections/mitigation, etc.

A. TRUE    B. FALSE
Environmental and Insurance

ANSWER: 3555.5(a), HB 12.10 A

B. FALSE

- Appraiser completed their due diligence
- Underwriter must complete due diligence as well to ensure the collateral is not at risk, nor poses a health/safety risk to occupants
Environmental and Insurance

• Lender signs RD Form 3555-18 “Lender Certification”
• Their signature confirms all applicable hazard and/or flood insurance has been purchased and will be maintained for the life of the loan

A. TRUE    B. FALSE
Environmental and Insurance

ANSWER: 3555.5(d), HB 16.2 and 16.11 C

A. TRUE

• Signature on the Lender Certification (Form RD 3555-18) indicates all listed conditions have been met
• This includes hazard and flood insurance requirements
• Lender retains applicable documentation
WAY TO GO!
Regulations

GovDelivery Sign up

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