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: 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: 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
**ANSWER SLIDE**

“Topic”

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

**X. Correct Response**

- Additional guidance for clarification may be provided
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

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

• 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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