Welcome to Environmental and Insurance Requirements, presented by USDA’s Single Family Housing Guaranteed Loan Program!
The objectives of the training include:

1. Demonstrating where the training topic is located in the program regulation, 7 CFR Part 3555 and the technical handbook, HB-1-3555.
2. Providing learning checks to help you gain a working knowledge of the topic, and
3. Links to online resources to assist in locating program information.
Every effort has been made to ensure this training and all references are accurate, however, new program revisions and clarifications may occur. Therefore, please ensure you always reference the most recent USDA publications available online.

This training module is not intended to replace the need to reference the regulation, technical handbook, and additional USDA published documents regarding the Guaranteed Loan Program.
Guaranteed Loan Program Regulation
7 CFR Part 3555
• The regulation is the rule!
• 8 Subparts: A – H
• Appendix 1

7 CFR Part 3555 is the program regulation. It is the first place users should look for the answers to their questions.

The regulation is the rule and it cannot be overridden by the technical handbook.

The 7 CFR Part 3555 is comprised of 8 subparts, A through H.

You can access the full regulation online as Appendix 1 from the Regulations and Guidelines website.
The Regulations and Guidelines website is located from the link shown on the slide.

Under “Rural Development” there are many items available from this home page.

To access the regulation, select “Handbooks.”
A list of all USDA Rural Development handbooks will display.

Be sure to select the correct technical handbook: HB-1-3555.

Once HB-1-3555 is selected, the entire handbook, including all appendix will display for selection.

Appendix 1 is the full regulation, 7 CFR Part 3555.
The regulation Table of Contents provides a quick view of the individual topics included under this Section. Under Environmental requirements this section includes policy, regulatory references, Agency responsibilities, and lender and loan applicant responsibilities.

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3555.5(b) states additional environmental regulations that apply to the program, specifically RD Instruction 1970. New construction properties, especially those located in special flood hazard areas, do have additional guidelines that must be met. Environmental policies apply to origination and servicing actions for guaranteed loans.

3555.5(c) reminds USDA that the Agency must ensure all applicable regulatory guidelines are met.
3555.5(d) includes lender and loan applicant responsibilities regarding flood insurance. When dwellings are located in special flood hazard areas, proper insurance must be purchased and maintained.
This portion of the regulation also states that flood insurance available through FEMA’s National Flood Insurance Program (NFIP), an agency participating in FEMA’s “Write Your Own” program or eligible private flood insurance policies are acceptable.

Flood insurance must be purchased and maintained for the life of the loan as applicable.

New construction properties located in SFHA’s are ineligible unless a Letter of Map Amendment (LOMA), a Letter of Map Revision (LOMR), (both of which remove the property from the flood zone), or an alternatives analysis is completed per Agency environmental guidelines along with a FEMA elevation certificate to document the lowest floor (including the basement) and all building improvements have been built at or above the 100 year flood plain per NFIP.
Guaranteed Loan Program Technical Handbook
HB-1-3555
• Provides guidance to support the regulation
• HB is not the rule
• 20 Chapters

The 7 CFR Part 3555 regulation cannot cover every topic and every potential scenario, therefore a technical handbook has been published to support the regulation and provide additional clarification. HB-1-3555 has 20 chapters.
The handbook may be accessed from the Regulations and Guidelines website. Environmental and Flood Insurance topics are located in Chapter 4, 6, 12, 15, and 16.
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

This slide helps you to understand the specific portions of these handbook chapters where information regarding environmental requirements, hazard insurance, and flood insurance guidance is located.

Chapter 4 will focus on Lender Responsibilities.
Chapter 6 is eligible loan purposes.
Chapter 12 is property appraisals and requirements.
Chapter 15 is submitting a complete loan application to USDA in order to obtain a conditional commitment.
Chapter 16 outlines the specific requirements must meet prior to and post loan closing to be eligible to obtain a loan note guarantee.
A few helpful tips:
The underwriter of the loan is the approved lender’s underwriter.
USDA is NOT the underwriter of the loan.
When researching topics, it is helpful to begin with the Table of Contents for the regulation and the handbook.
A great best practice when searching for information is to open the regulation or a handbook chapter, select the “Control” button on the keyboard, hold it down, and then also select the “F” key. A keyword search box will appear. Enter a keyword or phrase to locate information more quickly.
The best way to learn information is to test your knowledge!
Each question slide will list:
• the topic
• A question or scenario, and
• potential responses.

“Topic”

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

TRUE/FALSE or other answer options will be displayed
The answer slide will list:
• The topic
• The reference to the answer from the regulation and handbook
• The correct response, and
• Any additional clarification that may be helpful.
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

Read the question on the slide and select a response.
True.
The distances between a well and septic on a property must meet either the current HUD Handbook required distances OR the distances approved by the state and/or county ordinances/laws.
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
False.
Scott has selected this home to best meet the needs of his family. This is an existing dwelling, therefore no additional analysis or considerations are required. Because the home is located in a flood zone, Scott must 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

Read the question on the slide and select a response.
Response D.
When a dwelling includes a septic system, there must be sanitation measures in place to ensure there is no co-mingling of septic contents and the dwellings primary water source. Service by public water would certainly meet this requirement.

If the water source is private then either a cap must be placed on the well to prevent contamination, or the opening must be certified that it is above the base flood elevation.
Read the question on the slide and select a response.

- 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
True.
The applicant has secured a LOMA, a Letter of Map Amendment from FEMA, which removes the dwelling from the special flood hazard area. At this time only hazard insurance is required for the dwelling, no flood insurance is necessary.

If the LOMA had not been obtained, a Letter of Map Revision would also be an option. The last option to ensure the new construction dwelling would remain eligible in a SFHA would include an eligible FEMA elevation certificate to document the lowest floor of the dwelling (including the basement) has been built above the 100 year base flood elevation level along with an alternatives analysis. The alternatives analysis basically reviews the current housing stock in comparison to the proposed new construction dwelling to determine there are no existing options that are feasible. If the applicant has determined that existing housing stock is not a viable option, USDA is amicable to this assessment.
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

Read the question on the slide and select a response.
True.
Flood insurance deductibles may not exceed:
• The greater of $1,000 or 1% of the face value of the policy, or
• If maximum deductibles are allowed under State or Federal programs, then these are eligible. FEMA is a Federal program. Therefore if they revise their policies regarding deductibles, these are applicable to the USDA guaranteed loan 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

Read the question on the slide and select a response.
False
Because they do not escrow for the collection of real estate taxes and/or hazard insurance they must comply with Handbook Chapter 4, Attachment 4-A. The borrowers must also execute Attachment 4-B (or a similar form) that states they realize they are responsible to pay the real estate taxes and hazard insurance premiums when they are due. When borrowers fail to remit payment for these items the servicing lender must take action.
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

Read the question on the slide and select a response.
False.
The appraiser completed their due diligence and alerted the lender (their client) to potential hazards associated with the property. The underwriter must now decide their course of action to ensure the property is not at risk, nor poses a health or safety risk to the occupants.
Read the question on the slide and select a response.

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
True.
When the approved USDA lender signs the lender certification on Form RD 3555-18/18E (the conditional commitment) they are verifying that every applicable condition stated has been met.
This includes the appropriate procurement of applicable hazard and/or flood insurance requirements.
The lender is responsible to retain documentation to support all conditions have been met.
Way to go! You have completed the learning checks!
Don’t forget the Regulations and Guidelines website is a valuable source of USDA guideline knowledge.
Please sign up for GovDelivery messages. USDA sends out origination (including GUS) and servicing messages to alert lenders of new publications, clarifications, and additional program updates.
Thank you for supporting the USDA Single Family Housing Guaranteed Loan Program! We appreciate the opportunity to help you serve more rural homebuyers!
This will conclude the training module. Thank you and have a great day!