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Rural Development

# Existing Dwelling Requirements and Escrow Accounts

## Single Family Housing Guaranteed Loan Program

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### Training Objectives

- Where is the topic located?
  - \* 7 CFR Part 3555 and HB-1-3555
- Learning Checks
- Resources

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## 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.

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## Guaranteed Loan Program Regulation

### 7 CFR Part 3555

- The regulation is the rule!
- 8 Subparts: A – H
- Appendix 1

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**7 CFR Part 3555**  
<http://www.rd.usda.gov/publications/regulations-guidelines>

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**Rural Development**

- Administrative Notices
- Instructions
- Forms
- Spanish Forms, Form Letters and Guide Letters
- Handbooks
- Procedures Notices
- Significant Guidance Documents
- Unnumbered Letters
- Federal Register Publications

**7 CFR Part 3555**

**Handbooks**

- HB-1-3550 Direct Single Family Housing Loans and Grants - Field Office Handbook
- HB-2-3550 Direct Single Family Housing Loans and Grants - Centralized Servicing Center Handbook
- HB-4-3555 SFH Guaranteed Loan Program Technical Handbook**
- HB-1-3560 MFH Loan Origination Handbook
- HB-2-3560 MFH Asset Management Handbook
- HB-3-3560 MFH Project Servicing Handbook
- HB-1-3565 Guaranteed Rural Rental Housing Program Origination and Servicing Handbook
- Application Information Systems Support Handbook
- HB-1-3550 Direct Single Family Housing Loans and Grants - Field Office Handbook

**HB-4-3555 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
- Appendix 3 - Review and Appeals
- Appendix 4 - Agency and Employee Addresses
- Appendix 5 - Income Limits
- Appendix 6 - Interest Assistance
- Appendix 7 - Calvis Access Instructions
- Appendix 8 - EDI Documentation
- Appendix 9 - Penalties
- Appendix 10 - Unnumbered Letter and State Supplements




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## 7 CFR Part 3555

### Subpart E: Underwriting the Property

- .201: Site requirements
- **.202: Dwelling requirements**
- .203: Ownership requirements
- .204: Security requirements
- .205: Special requirements for condominiums
- .206: Special requirements for community land trusts
- .207: Special requirements for Planned Unit Developments (PUD's)
- .208: Special requirements for manufactured homes
- .209: Rural Energy Plus loans

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## 7 CFR Part 3555: 3555.202(b) and (c)

3555.202 Dwelling requirements.

- (a) New dwellings.
- (b) Existing dwellings.
- (c) Escrow account for exterior or interior development.

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**7 CFR Part 3555: 3555.202(b)**

(b) Existing dwellings. Existing dwellings are considered to meet the following criteria when inspected and certified as meeting HUD requirements for one-to-four unit dwellings in accordance with Agency guidelines:

- (1) Be structurally sound;
- (2) Be functionally adequate;
- (3) Be in good repair, or to be placed in good repair with loan funds; and
- (4) Have adequate and safe electrical, heating, plumbing, water, and wastewater disposal systems.

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**7 CFR Part 3555: 3555.202(c)**

(c) Escrow account for exterior or interior development. This paragraph does not apply if the development is related to a "combination construction and permanent loan" under Sec. 3555.101(c). If a dwelling is complete with the exception of interior or exterior development work, Rural Development may issue the Loan Note Guarantee on the loan if the following conditions are met:

- (1) The incomplete work does not affect the habitability of the dwelling, nor the health or safety of the housing occupants.
- (2) The cost of any remaining interior or exterior work is not greater than 10 percent of the final loan amount.


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**7 CFR Part 3555: 3555.202(c)**

- (3) An escrow account is funded in an amount sufficient to assure the completion of the remaining work. This figure must be at least 100 percent of the cost of completion but may be higher if the lender determines a higher amount is needed.
- (4) The builder or a licensed contractor has executed a contract providing for completion of the planned development within 180 days of loan closing. If the borrower will be completing the planned development on an existing dwelling without the services of a contractor, the requirement for an executed contract is waived when all of the following conditions are met:
  - (i) The estimated cost to complete the work is less than 10 percent of the total loan amount;
  - (ii) The escrow amount is less than or equal to \$10,000; and
  - (iii) The lender has determined the borrower has the knowledge and skills necessary to complete the work.


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**7 CFR Part 3555: 3555.202(c)**

- (5) The lender may release escrowed funds only after obtaining a final inspection report acknowledged by the borrower and indicating all planned development has been satisfactorily completed.
- (6) The lender remains responsible to ensure a final inspection is performed and required repairs are completed.
- (7) The settlement statement reflects the amounts escrowed.

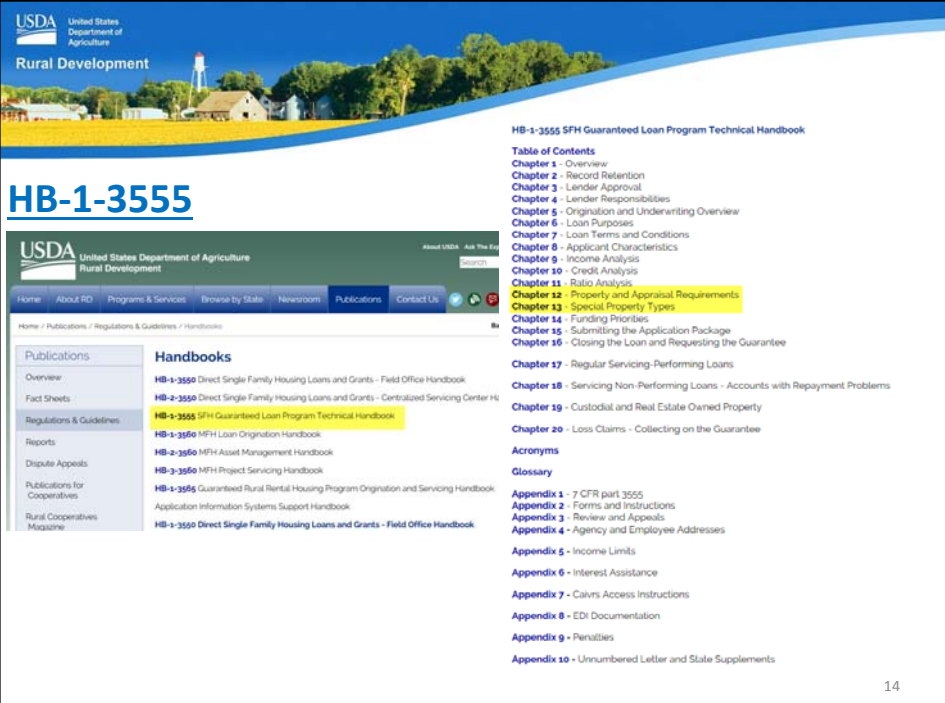
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**Guaranteed Loan Program Technical Handbook**  
**HB-1-3555**

- Provides guidance to support the regulation
- HB is not the rule
- 20 Chapters

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**HB-1-3555**

HB-1-3555 SFH Guaranteed Loan Program Technical Handbook

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## HB-1-3555: Chapter 12

**SECTION 3: DWELLING REQUIREMENTS**

- 12.8 MODEST HOUSING
- 12.9 EXISTING AND NEW DWELLINGS
  - A. Existing Dwellings
  - B. New Dwellings
  - C. Repair Escrows

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## HB-1-3555: Chapter 13


**SECTION 3: MODULAR HOMES**

- 13.12 LOAN PROCESSING PROCEDURES FOR NEW PROPERTIES INVOLVING MODULAR HOMES
- 13.13 LOAN PROCESSING PROCEDURES FOR EXISTING PROPERTIES INVOLVING MODULAR HOMES

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## 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


supplemental social security income and Social Security benefits received in a lump sum:

(vii) Any earned income tax credit.

(viii) Adoption assistance in excess of any amount determined pursuant to HUD's definition of annual income at 24 CFR 5.609(c);


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## 7 CFR PART 3555 / HB-1-3555 LEARNING CHECKS

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## Question Slide

“Topic”

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

TRUE/FALSE or other answer options will be displayed

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## ANSWER SLIDE

“Topic”


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

X. Correct Response

- Additional guidance for clarification may be provided

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### Existing dwelling requirements and escrows

Existing dwellings are considered structurally sound and functionally adequate when the current HUD Handbook minimum property requirements are met.

A. TRUE      B. FALSE

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## Existing dwelling requirements and escrows

**ANSWER: 3555.202(b), HB 12.9 A**

A. TRUE

- Lender determines eligible party to verify HUD Handbook minimum property requirements
- Certification is accepted by USDA

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## Existing dwelling requirements and escrows

Existing dwellings are defined as:

- A. Completed for 12 months
- B. Completed for less than 12 months but previously occupied
- C. All of the above

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## Existing dwelling requirements and escrows


**ANSWER: 3555.202(b), HB 12.9 A**

C. All of the above

This includes:

- Existing dwellings well over 12 months old
- Spec homes completed for 12 months or more with no occupancy
- Homes less than 12 months old but previously occupied

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## Existing dwelling requirements and escrows

Only HUD Roster appraisers may certify the dwelling meets current HUD Handbook requirements.

A. TRUE    B. FALSE

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**Existing dwelling requirements and escrows**  
**ANSWER: 3555.202(b), HB 12.9 A**  
B. FALSE

Eligible appraisers to complete HUD certification include:

- HUD Roster appraisers
- Licensed/Certified appraisers: Lender determines eligible party to make certification

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**Existing dwelling requirements and escrows**

Existing modular homes must meet the current HUD Handbook minimum property requirements.

A. TRUE    B. FALSE

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### Existing dwelling requirements and escrows

**ANSWER: 3555.202(b), HB 13.13**

A. TRUE

- Modular homes are built to eligible building codes, not HUD Code
- Existing dwellings must meet HUD minimum property requirements

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### Existing dwelling requirements and escrows

Termite/Pest inspections are only required if the lender, appraiser, or State law mandates.

A. TRUE    B. FALSE


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**Existing dwelling requirements and escrows**  
**ANSWER: 3555.202(b), HB 12.9 A**  
A. TRUE

- USDA does not determine termite/pest requirement
- Defer to appraiser, lender, State law

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**Existing dwelling requirements and escrows**

The lender's underwriter will determine required repairs necessary to meet the current HUD Handbook and/or place the home in good repair.

A. TRUE    B. FALSE

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### Existing dwelling requirements and escrows

**ANSWER: 3555.202(b), HB 12.9 A**

A. TRUE

- Underwriter must review the appraisal
- Appraiser noted repairs/HUD required repairs
- Other items that may affect safety of occupants, soundness of collateral, and ability of the applicant to be a successful homeowner

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### Existing dwelling requirements and escrows

- Home is habitable
- Half of the roof requires repair
- An escrow account may be utilized for post closing completion

A. TRUE    B. FALSE

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### Existing dwelling requirements and escrows

**ANSWER: 3555.202(c), HB 12.9 C**

B. FALSE

- Escrow accounts may not be appropriate for roof, foundation/structural, electric, and plumbing repairs
- Flexibility is allowed when the repair can be completed timely and does not place occupants/collateral in jeopardy

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### Existing dwelling requirements and escrows

- Loan amount: \$155,000
- Exterior and/or interior repair escrow may not exceed

A. \$15,500      B. \$31,000


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**Existing dwelling requirements and escrows**  
**ANSWER: 3555.202(c), HB 12.9 C**  
A. \$15,500

- Escrow accounts may not exceed 10% of the final loan amount
- Escrow account must be at least 100% of the cost of the repair. Lender may require a higher figure at their discretion

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**Existing dwelling requirements and escrows**

Interior escrows must be completed within \_\_\_\_ days.

A. 180    B. 240


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**Existing dwelling requirements and escrows**  
**ANSWER: 3555.202(c), HB 12.9 C**  
A. 180

- Six months should be adequate to complete interior repairs
- Extensions are generally not allowed for interior escrows
- The escrow is for repairs, not rehabilitation or construction.

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**Existing dwelling requirements and escrows**

Exterior escrows must be completed within \_\_\_\_ days.

A. 180    B. 240


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**Existing dwelling requirements and escrows**  
**ANSWER: 3555.202(c), HB 12.9 C**  
B. 240

- Extensions beyond 240 days are generally not allowed
- Flexibility is granted when inclement weather and other acceptable factors exist.

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**Existing dwelling requirements and escrows**

- Eligible escrow account established
- Loan is closed
- USDA will issue the loan note guarantee without the repair completed

A. TRUE      B. FALSE


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**Existing dwelling requirements and escrows**  
**ANSWER: 3555.202(c), HB 12.9 C**  
A. TRUE

- Eligible escrow account = loan note guaranteed issued
- Repair does not have to be completed prior to request of LNG
- Lender must retain evidence of repair completion

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**Existing dwelling requirements and escrows**

- Eligible escrow account established
- Repair is completed
- Lender and/or real estate professional may determine completion

A. TRUE      B. FALSE

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**Existing dwelling requirements and escrows**  
**ANSWER: 3555.202(c), HB 12.9 C**  
B. FALSE

Appraiser must review completed repair:

- Ensure work is completed as required per appraisal
- Provide lender with photographs of repair
- Sign a repair completion report

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**Existing dwelling requirements and escrows**

USDA must approve the release of escrowed repair funds.

A. TRUE    B. FALSE

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## Existing dwelling requirements and escrows

**ANSWER: 3555.202(c), HB 12.9 C**

B. FALSE

- Approved lender will release escrowed funds
- Lender must document loan file with evidence of repair completion to support release

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## Existing dwelling requirements and escrows

- Escrow funds: \$4,000
- Source of funds: \$2,000 loan funds, \$2,000 contract seller concessions
- Repair is completed, \$800 remains
- \$800 must be applied as principal reduction

A. TRUE    B. FALSE

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**Existing dwelling requirements and escrows**  
**ANSWER: 3555.202(c), HB 12.9 C**  
A. TRUE

- Loan funds and contract seller concessions must be applied to the loan balance

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**Existing dwelling requirements and escrows**

- Escrow funds: \$2,000
- Source of funds: Borrower savings account
- Repair is completed, \$250 remains
- \$250 must be applied as principal reduction

A. TRUE    B. FALSE

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### Existing dwelling requirements and escrows

**ANSWER: 3555.202(c), HB 12.9 C**

B. FALSE

- Borrower supplied the escrow funds from their own account
- Borrower may receive their remaining funds

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### Existing dwelling requirements and escrows

- Escrow funds: \$1,500
- Source of funds: Seller checking account
- Repair is completed, \$100 remains
- \$100 may be returned to the seller

A. TRUE    B. FALSE


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**Existing dwelling requirements and escrows**  
**ANSWER: 3555.202(c), HB 12.9 C**  
A. TRUE

- Seller supplied the escrow funds from their own account
- These are not seller concessions stated on the contract
- Seller may receive their remaining funds

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**Existing dwelling requirements and escrows**

Escrowed repairs must be completed by a licensed contractor.

A. TRUE    B. FALSE

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### Existing dwelling requirements and escrows

**ANSWER: 3555.202(c)(4), HB 12.9 C**

B. FALSE

- Borrower may complete escrowed repairs
- Lender must deem borrower eligible to complete work

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# WAY TO GO!

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