Welcome to Existing Dwelling Requirements and Escrow Accounts, 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.
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.

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.
Existing dwelling requirements and escrow accounts are located in Subpart E, Section 3555.202.
### 7 CFR Part 3555: 3555.202(b) and (c)

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The regulation Table of Contents provides a quick view of the individual topics included under this Section.
3555.202(b) states the following for existing dwellings:

- They are considered to meet acceptable criteria when inspected and certified as meeting minimum property standards for HUD one to four unit dwellings.
- Homes must be structurally sound, functionally adequate, be or be placed in good repair, and have safe electrical, heating, plumbing, water, and wastewater disposal systems.
When minor repairs are required or deemed necessary, an escrow account for exterior and/or interior repairs may be established.

USDA may issue the Loan Note Guarantee before repairs are complete when:
1. The work to be done may not affect the habitability of the dwelling, nor the health or safety of the occupants.
2. The cost of interior and/or exterior work together may not be greater than 10 percent of the final loan amount.
3. The escrow account must be funded in an amount at least equal to 100 percent of the cost of the repair. Lenders may determine if a higher amount is required.

4. Development work must be completed within 180 days of loan closing (some flexibilities apply under HB-1-3555).

Borrowers may complete their own escrowed repairs when: the work is less than 10 percent of the loan amount, the escrow account is $10,000 or less, and the lender has determined the borrower eligible to complete the work.
5. Lenders may release escrowed funds only after obtaining an eligible final inspection report.
6. It is the lender’s responsibility to obtain an eligible final inspection.
7. The settlement statement must reflect the escrow.
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. Existing dwelling requirements and escrow accounts are located in Chapters 12 and 13.
This screen shot displays the Table of Contents of Chapter 12. This helps the user to locate specific topics more quickly.
Existing dwelling requirements of modular homes will be located in the Table of Contents of Chapter 13.
TIPS

- Underwriter = USDA Approved Lender
- USDA = not an underwriter
- Research Rule & HB questions: Table of Contents
- Research Rule & HB questions: Control + F

A few helpful tips:
1. The underwriter of the loan is the approved lender’s underwriter.
2. USDA is NOT the underwriter of the loan.
3. When researching topics, it is helpful to begin with the Table of Contents for the regulation and the handbook.
4. 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.
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!
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

Read the question on the slide and select a response.
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

True
The lender is responsible to verify the appraiser or other acceptable party is qualified to view the property and make the HUD Handbook minimum property requirement certification.
This certification is accepted by USDA.
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

Read the question on the slide and select a response.
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

Response C
Existing dwellings may have been:
- Completed and in existence for over 12 months
- A spec new construction home completed for more than 12 months with no occupancy, and
- Homes that were completed less than 12 months ago, but they are currently or previously occupied
Existing dwelling requirements and escrows

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

A. TRUE  B. FALSE

Read the question on the slide and select a response.
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

False

While a HUD Roster appraiser may be the most desirable (they hold credentials from HUD), they are not the only acceptable source of property certification. Approved lenders must determine the parties that they deem have the adequate education and experience to make an acceptable certification to the HUD minimum property requirements.
Existing dwelling requirements and escrows

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

A. TRUE    B. FALSE

Read the question on the slide and select a response.
True
Modular homes are built to eligible building codes of their destination, not HUD code which is applies to manufactured homes. Therefore, existing modular homes are also required to meet the HUD minimum property requirements.
Existing dwelling requirements and escrows

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

A. TRUE     B. FALSE
True
USDA does not determine termite or pest requirements.
The appraiser/inspector may indicate an inspection is required based on their observations under the HUD minimum property requirements review, the approved lender may require the inspection, or it may be a requirement of applicable State real estate lending laws.
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

Read the question on the slide and select a response.
True
The approved lender must perform a review of the appraisal for the collateral.
If the appraiser has noted required repairs to meet HUD handbook minimum property requirements, these must noted as required repairs.
If the approved lender notes additional items that they determine affect the safety occupants, soundness of collateral, and/or the ability of the applicant to be a successful homeowner, they should require these repairs as well. This is at lender discretion.
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

Read the question on the slide and select a response.
False
If half of a roof is in need of serious repair, it may not be in the best interest of lender or homeowner to delay the repair. So an escrow account may not be appropriate for roof, foundation/structural, electric, and plumbing repairs. USDA does allow flexibility for some of these issues when the repair can be completed timely and there is no potential threat or harm to the occupants or collateral.
Existing dwelling requirements and escrows

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

  A. $15,500  B. $31,000

Read the question on the slide and select a response.
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

Response A

The escrow account may not exceed 10 percent of the final loan amount.
At least 100 percent of the cost of the repair must be escrowed. If the lender determines a higher figure must be utilized, this is at their discretion.
Existing dwelling requirements and escrows

Interior escrows must be completed within ____ days.

A. 180  B. 240

Read the question on the slide and select a response.
Response A
180 days is six months. This should be enough time to complete any interior repairs post loan closing.
Extensions are generally not allowed for interior escrows because weather does not affect the ability to complete them.
Escrow accounts are for repairs, and should not be utilized to perform property rehabilitation of construction on the dwelling.
Read the question on the slide and select a response.
Response B

Exterior repairs may be more tricky, therefore they are allowed up to 240 days for completion.

When there has been severe inclement weather, disasters may have occurred, etc. the lender should remain in contact with USDA to keep us apprised of the circumstances and timeline of the repair process.
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

Read the question on the slide and select a response.
True
When an eligible escrow account is established, USDA will issue the loan note guarantee post loan closing without completion of the repair.
The lender is responsible to retain evidence of when the repair is completed.
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

Read the question on the slide and select a response.
False

The lender must utilize an appraiser to review the completed repair. The appraiser must ensure the work is completed as ordered, provide the lender with photographs to support the completion, and sign a repair completion report.
Existing dwelling requirements and escrows

USDA must approve the release of escrowed repair funds.

A. TRUE  B. FALSE

Read the question on the slide and select a response.
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

False
USDA does not monitor escrowed funds. The approved lender will release these funds when applicable. The lender must document their loan file with evidence the repair was complete, and therefore the release of the funds was eligible.
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

Read the question on the slide and select a response.
True
All of the funds provided for the escrow account were loan funds, therefore the balance remaining must be applied to the loan balance.
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

Read the question on the slide and select a response.
False
The borrower supplied enough of their own funds as part of the escrow account, that they are eligible to receive them back if applicable.
Read the question on the slide and select a response.
True

These funds were not provided by a seller concession (which are loan funds), rather they provided funds directly from their own account. When the lender has documentation that the funds came directly from the seller’s own account they are eligible to receive any remaining funds.
Existing dwelling requirements and escrows

Escrowed repairs must be completed by a licensed contractor.

A. TRUE  B. FALSE

Read the question on the slide and select a response.
False

When the borrower is determined to be eligible by the lender to complete repairs, they may do so without the assistance of a contractor.
Way to go! You have completed the learning checks!
Don’t forget the Regulations and Guidelines website is a treasure trove 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!