Welcome to Loan Purposes and Restrictions, presented by USDA’s Single Family Housing Guaranteed Loan Program!
Training Objectives

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

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.
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.
Loan purposes and Loan restrictions are located in Subpart C, Sections 3555.101 and 102.
The regulation Table of Contents provides a quick view of the individual topics included under this Section.
3555.101(a) includes details for financing:
• New dwellings
• Existing dwellings
• Repairs for existing dwelling
• Relocation of existing dwelling
7 CFR Part 3555: 3555.101

b. Eligible costs

- Essential household equipment, energy saving items
- Site prep: grading, foundation, landscape, fences
- Special design features to accommodate physical disabilities

3555.101(b) outlines additional eligible costs such as essential household equipment, energy saving measures, site prep, and additional design features that may be necessary to accommodate physical disabilities, etc.
3555.101(b) also includes examples of reasonable and customary loan expenses or closing costs that may be financed.
Many of the most common questions USDA receives regarding discount points, escrow accounts, and eligible lender fees are in this section.
3555.101(c) alludes to the new combination construction and permanent loan program, however you can learn all about this new construction loan feature in the corresponding training module.

Refinancing is also an eligible loan purpose for existing Section 502 Direct and Guaranteed loan borrowers, but it will not be discussed in this training. Please refer to the Refinance training module for all the details regarding the three program options USDA offers.
3555.102 outlines loan restrictions, those items that may not be eligible to be financed into the loan amount. The Table of Contents lists these topics in an easy to reference list.
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. Loan purposes and restrictions are located in Chapter 6.
This screen shot displays the Table of Contents of Chapter 6. This helps the user to locate specific topics more quickly.
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!
Loan purposes and restrictions

USDA has published internal thresholds allowable for lender points, fees, and charges.

A. TRUE    B. FALSE

Read the question on the slide and select a response.
False
USDA has not created our own schedule of acceptable lender points, fees, etc.
USDA refers lenders to Federal and State laws regarding these fees, specifically to the guidelines published by the Consumer Financial Protection Bureau.
Loan purposes and restrictions

- SFH residence with 10 acre tract
- Includes a separate building: vehicle repair shop
- Shop includes 4 repair bays with hydraulic lifts and tools
- This is an eligible property

A. TRUE    B. FALSE

Read the question on the slide and select a response.
False
This is property includes a building which is clearly commercial in nature, and will retain specialized equipment. Guaranteed loans must be for properties that are primarily residential in character, design, and use. This does not mean that a residential property cannot have any additional garages, workshops, or storage areas. The nature of additional building is income producing.
Loan purposes and restrictions

Which of the following is not an eligible loan purpose:

A. Appraisal fee  
B. Realtor administrative fee and/or sales commission  
C. Discount points to permanently reduce interest rate

Read the question on the slide and select a response.
Response B
The payment of commissions, finders fees, or real estate administrative fees are not eligible loan purposes under 7 CFR Part 3555.
The borrower may pay for these items out of their own funds.
Loan purposes and restrictions

- Appraised value: $150,000
- Purchase price: $135,000
- Applicant wishes to finance: Wheelchair ramp, new kitchen/laundry appliances, and four shrubs
- These are eligible loan purposes
  
  A. TRUE      B. FALSE

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

Each item listed is an eligible loan purpose under 3555.101(b).

The appraised value will determine if these items are able to be included in the total loan amount, as the maximum loan amount may not exceed 3555.103 (100% of appraised value plus the up front guarantee fee).
Loan purposes and restrictions

- Applicant wishes to purchase a manufactured home
- Unit was constructed and installed on permanent foundation more than 12 months
- This property is ineligible

A. TRUE    B. FALSE

Read the question on the slide and select a response.
Loan purposes and restrictions

**ANSWER: 3555.102(a), HB 6.2 C**

**A. TRUE**

- The unit is an existing manufactured home
- Existing units must meet 3555.208(b)(3)

True
7 CFR Part 3555 restricts placing a new guaranteed loan on an existing manufactured home only to those that are currently financed with a Section 502 Direct or Guaranteed loan, or those being sold from a USDA lender’s REO inventory (which they would hold the loan note guarantee).
Loan purposes and restrictions

- Purchase price: $100,000
- Seller concessions may not exceed

A. $3,000 (3%)  B. $6,000 (6%)

Read the question on the slide and select a response.
Loan purposes and restrictions

ANSWER: 3555.101(b), HB 6.2 C

B. $6,000

- 6% of sales price is eligible
- Limited to seller contributions/interested third party
- Must be used for authorized loan purposes

Response B
Seller concessions and other interested third party contributions are limited to 6 percent of the sales price. Seller concessions must be used only for eligible loan purposes as allowed in 3555.101(b).
Read the question on the slide and select a response.
True

Discount points may be used to permanently buydown an interest rate for the life of the loan for all applicants.
The original interest rate must meet 3555.104 prior to the application of the buydown.
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!