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# OWNERSHIP REQUIREMENTS

## 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
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- 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
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- 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

3555.203	Ownership requirements.
	(a) Fee-simple ownership.
	(b) Secured leasehold interest.
3555.204	Security requirements.
	(a) Recorded security document.
	(b) Prior liens.
	(c) Adequate security.
	(d) Collateral.
3555.205	Special requirements for condominiums.
3555.206	Special requirements for community land trusts.
	(a) Rural Development review.
	(b) Foreclosure termination.
	(c) Organization.
	(d) Lender documentation.
	(e) Appraisals.

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## 7 CFR Part 3555: 3555.203

Sec. 3555.203 Ownership requirements.

After the loan is closed, the borrower must have an acceptable ownership interest in the property as evidenced by one of the following:

(a) Fee-simple ownership. Acceptable fee-simple ownership is evidenced by a fully marketable title with a deed vesting a fee-simple interest in the property to the borrower.

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## 7 CFR Part 3555: 3555.203

(b) Secured leasehold interest. Loans may be guaranteed on leasehold properties. If the conditions in this subsection are met:

- (1) The applicant is unable to obtain fee simple title to the property;
- (2) Such leaseholds are fully marketable in the area, except in the case of properties located on American Indian restricted land;
- (3) The lease has an unexpired term of at least 45 years from the date of loan closing, except in the case of properties located on American Indian restricted land where the lease must have an unexpired term at least equal to the term of the loan. Leases on American Indian restricted land for period of 25 years which are renewable for a second 25 year period are permissible as are leases of a longer duration;
- (4) The mortgage must cover both the property improvements and the leasehold interest in the land;
- (5) The leasehold estate must constitute real property, be subject to the mortgage lien, be insured by a title policy, be assignable or transferable and cannot be terminated except for nonpayment of lease rents; and
- (6) The lease must be recorded in the appropriate local real estate records.

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## 7 CFR Part 3555: 3555.204

Sec. 3555.204 Security requirements.

Rural Development will only guarantee loans that are adequately secured. A loan will be considered adequately secured only when all of the following requirements are met:

- (a) Recorded security document. The lender obtains at closing, a mortgage on all required ownership and leasehold interests in the security property and ensures that the loan is properly closed.
- (b) Prior liens. No liens prior to the guaranteed mortgage exist except in conjunction with a supplemental loan for transfer and assumption. The guaranteed loan must have first lien position at closing. Junior liens by other parties are permitted as long as the junior liens do not adversely affect repayment ability or the security for the guaranteed loan.
- (c) Adequate security. Existing and proposed property improvements are completely on the site and do not encroach on adjoining property.
- (d) Collateral. All collateral secures the entire loan.

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## 7 CFR Part 3555: 3555.206

Sec. 3555.206 Special requirements for community land trusts.

A community land trust must meet the definition in accordance with Sec. 3555.10 and other requirements described in this subpart. Loans may be guaranteed for dwellings on land owned by a community land trust only if:

- (a) Rural Development review. Rural Development reviews and accepts any restrictions imposed by the community land trust on the property or applicant before loan closing. The Agency may place conditions on the approval of restrictions on resale price and rights of first refusal.
- (b) Foreclosure termination. The community land trust automatically and permanently terminates upon foreclosure or acceptance by the lender of a deed in lieu of foreclosure.
- (c) Organization. The organization must meet the definition of a community land trust as defined in the Housing Act of 1949 and the following requirements:
  - (1) Be organized under State or local laws.
  - (2) Members, founders, contributors or individuals cannot benefit from any part of net earnings of the organization.
  - (3) The organization must be dedicated to decent affordable housing for low-and moderate-income people.
  - (4) Comply with financial accountability.
- (d) Lender documentation. The lender's file must contain documentation that the community land trust has community support, local market acceptance and 2 years of prior experience in providing affordable housing.
- (e) Appraisals. A property located on a site owned by a community land trust must be appraised as leasehold interest and meet the provisions of Sec. 3555.203.

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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 13

**SECTION 1: SPECIAL FORMS OF OWNERSHIP**

- 13.2 OVERVIEW
- 13.3 LOANS FOR UNITS IN A COMMUNITY LAND TRUST
  - A. Definition
  - B. Protection of Lender Rights and Lien Position
  - C. Restrictions on Resale Price
  - D. Rights of First Refusal
  - E. Appraisals
- 13.4 LOANS ON LEASEHOLD ESTATES
  - A. Definition
  - B. Lease Requirements

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## HB-1-3555: Chapter 16

**16.11 OWNERSHIP REQUIREMENTS**

- A. Lender and Agency Responsibilities
- B. Acceptable Forms of Ownership
- C. Insurance Policy Requirements

ATTACHMENT 16- LOAN CLOSING STACKING ORDER CHECKLIST  
A:

**ATTACHMENT 16- AMENDMENT TO MORTGAGES WITH LEASEHOLD INTEREST**  
B:

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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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**LET'S  
GET STARTED.**

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**Ownership requirements**

After the loan is closed, the borrower must have an acceptable ownership interest in the property.

A. TRUE    B. FALSE

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### Ownership requirements

**ANSWER: 3555.203, HB 16.11 B**

A. TRUE

Lender must ensure:

- acceptable ownership interest in the property
- clean and marketable title
- First lien position

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### Ownership requirements

Leaseholds must have an unexpired term of at least \_\_\_ years from the date of loan closing for properties that are not located on American Indian restricted land.

A. 25      B. 45

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**Ownership requirements**  
**ANSWER: 3555.203(b)(3), HB 13.4 B**

B. 45

- Properties on American Indian restricted land must have an unexpired term equal to the loan term
- Those with 25 year terms that are renewable for an additional 25 years or longer terms are also acceptable

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**Ownership requirements**

Leaseholds must have a mortgage that covers both the property improvements and the leasehold interest in the land.

A. TRUE      B. FALSE

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### Ownership requirements

**ANSWER: 3555.203(b)(4), HB 13.4 B**

A. TRUE

- Lender must secure all property improvements with the collateral
- Lease must be recorded in appropriate real estate records

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### Ownership requirements

A community land trust is not required to terminate upon foreclosure or lender acceptance of a deed in lieu.

A. TRUE      B. FALSE

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## Ownership requirements

**ANSWER: 3555.206, HB 13.3 B**

B. FALSE

- Lender rights and lien position must be protected
- All applicable restrictions within the community land trust must terminate

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## Ownership requirements

A first right of refusal is allowed under a community land trust.

A. TRUE      B. FALSE

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## Ownership requirements

**ANSWER: 3555.206, HB 13.3 D**

A. TRUE

- Rights must be held by government body or eligible non-profit
- Rights must be exercised within 45 days of notice of sale
- Option price must allow borrowers to recoup initial investment plus reasonable appreciation

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# WAY TO GO!

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## Regulations

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