



Purchase with Rehabilitation and Repair Loans

Single Family Housing Guaranteed Loan Program

 **USDA** Rural Development
U.S. DEPARTMENT OF AGRICULTURE

Training Objectives:

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



7 CFR Part 3555

<http://www.rd.usda.gov/publications/regulations-guidelines>

The screenshot shows the USDA Rural Development website. The header includes the USDA logo, the text 'United States Department of Agriculture Rural Development', and navigation links for 'About USDA', 'Ask The Expert', 'Help', and 'En Español'. A search bar is located on the right. Below the header is a main navigation menu with links for 'Home', 'About RD', 'Programs & Services', 'Browse by State', 'Newsroom', 'Publications', and 'Contact Us'. Social media icons for Twitter, YouTube, Facebook, and LinkedIn are also present. The breadcrumb trail reads 'Home / Publications / Regulations & Guidelines'. The main content area is titled 'Regulations & Guidelines' and contains the following text:

All Federal regulations can be found at Regulations.gov and customers can search, review and submit comments on Federal documents that are open for comment and published in the Federal Register.

As a service to our customers, we post Rural Development's Instructions, Administrative Notices, and forms. The Instructions are available in three file formats: Adobe Acrobat (PDF), Microsoft Word 6.0 (doc) and Text (txt). To the extent possible, all documents have been made available in either Adobe Acrobat Ver 5.0 and higher, or Text and are 508 compliant. If you should have accessibility issues and need a hard copy, please send an e-mail to comments@wdc.usda.gov.

If you are having problems with this page, need a hard copy of any of the documents due to accessibility issues or would like to be added to the Regulations Update distribution list (available for Rural Development employees only with a valid Rural Development e-mail address), please e-mail comments@wdc.usda.gov.

Rural Development

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

A left-hand sidebar menu lists various categories: Publications, Overview, Fact Sheets, Regulations & Guidelines (highlighted), Reports, Dispute Appeals, Publications for Cooperatives, Rural Cooperatives Magazine, Strategic Plan, Congressional Testimony, and Transcripts and Speeches. A 'Back to Previous Page' link is located in the top right of the content area.

7 CFR Part 3555

The screenshot shows the USDA Rural Development website. The header includes the USDA logo and navigation links: Home, About RD, Programs & Services, Browse by State, Newsroom, Publications, and Contact Us. A search bar is visible. The breadcrumb trail reads: Home / Publications / Regulations & Guidelines / Handbooks. The 'Handbooks' section lists several documents, with 'HB-1-3555 SFH Guaranteed Loan Program Technical Handbook' highlighted in yellow.

Publications	Handbooks
Overview	HB-1-3550 Direct Single Family Housing Loans and Grants - Field Office Handbook
Fact Sheets	HB-2-3550 Direct Single Family Housing Loans and Grants - Centralized Servicing Center Handbook
Regulations & Guidelines	HB-1-3555 SFH Guaranteed Loan Program Technical Handbook
Reports	HB-1-3560 MFH Loan Origination Handbook
Dispute Appeals	HB-2-3560 MFH Asset Management Handbook
Publications for Cooperatives	HB-3-3560 MFH Project Servicing Handbook
Rural Cooperatives Magazine	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-1-3555 SFH Guaranteed Loan Program Technical Handbook

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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** - Caivrs Access Instructions
- Appendix 8** - EDI Documentation
- Appendix 9** - Penalties
- Appendix 10** - Unnumbered Letter and State Supplements

7 CFR Part 3555

- § 3555.104 Loan Terms.
- § 3555.105 Combination construction and permanent loans.



HB 12.28 - Purchase with Rehabilitation and Repair Loan

Applicant Advantages

- Purchase existing dwelling
- Customize improvements
- One loan closing
- Funds to purchase the dwelling and provide eligible rehabilitation



HB 12.28 - Purchase with Rehabilitation and Repair Loan

Applicant Advantages

- 100% financing
- Maximum loan amount: 100% of “As Improved” appraised value
- Upfront guarantee fee may be included above “As Improved” value
- No future loan amount changes, no re-amortization



HB 12.28 - Purchase with Rehabilitation and Repair Loan

Applicant Advantages

- Correct dwelling deficiencies
- Revitalize existing housing stock
- Retain personal reserves post-closing



Lender Advantages

- **REDUCED RISK!**
- LNG is issued post-closing
- Repair/Renovation completed post-closing
- Immediate sale on secondary market

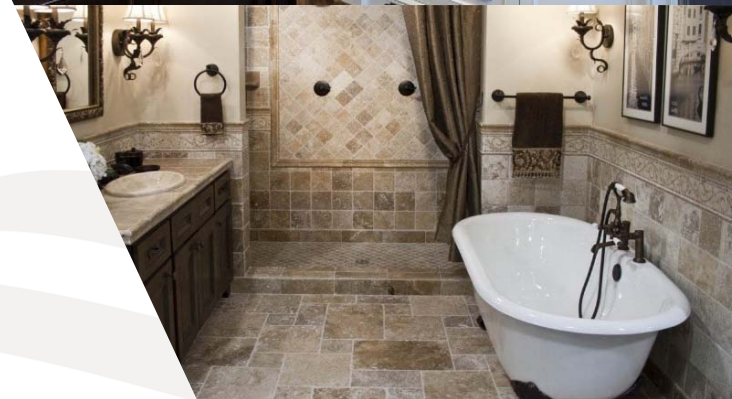
Eligible Loan Costs

- Upgrade/modernize kitchens, bathrooms, interior floor covers, etc.
- Create accessible amenities to accommodate disabilities
- Additions, structural alterations or reconstruction
- Install energy conservation or weatherization features



Eligible Loan Costs

- Repair or install septic systems and water wells
- Remove safety and health hazards
- Repair existing amenities; swimming pools, saunas and accessory units





Non-Structural Repairs

- Finance up to \$35,000 in repairs
- No minimum repair costs
- Dwelling must be habitable
- Contingency reserves allowed:
 - 10% utilities on
 - 15% utilities off

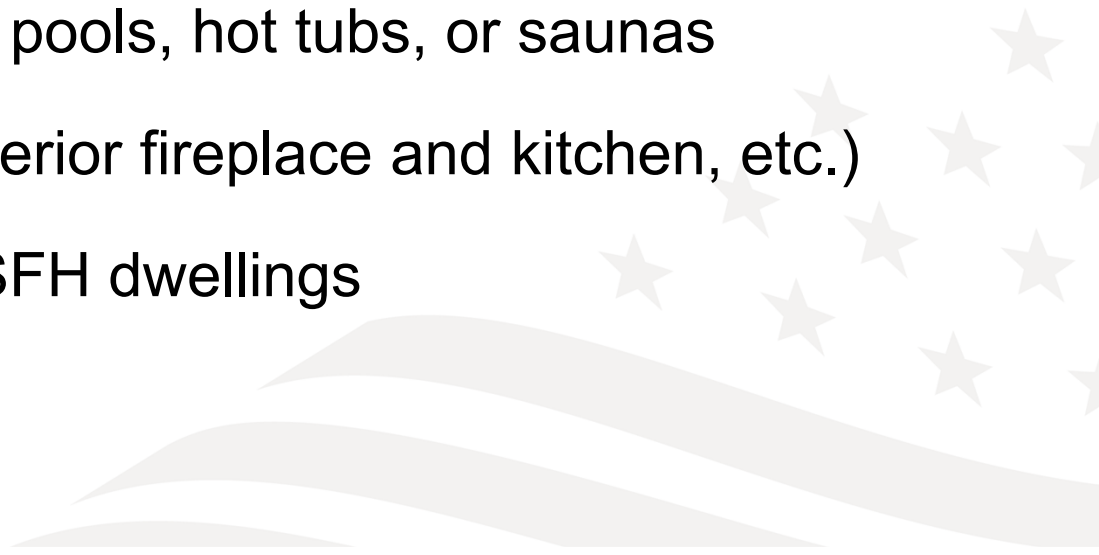
Structural Repairs

- Finance over \$35,000 in repair costs
- Qualified Inspector required; write-up and all inspections.
- Contingency reserves allowed
 - 10% utilities on
 - 15% utilities off
- PITI reserves; up to 6 months when the dwelling is not habitable.



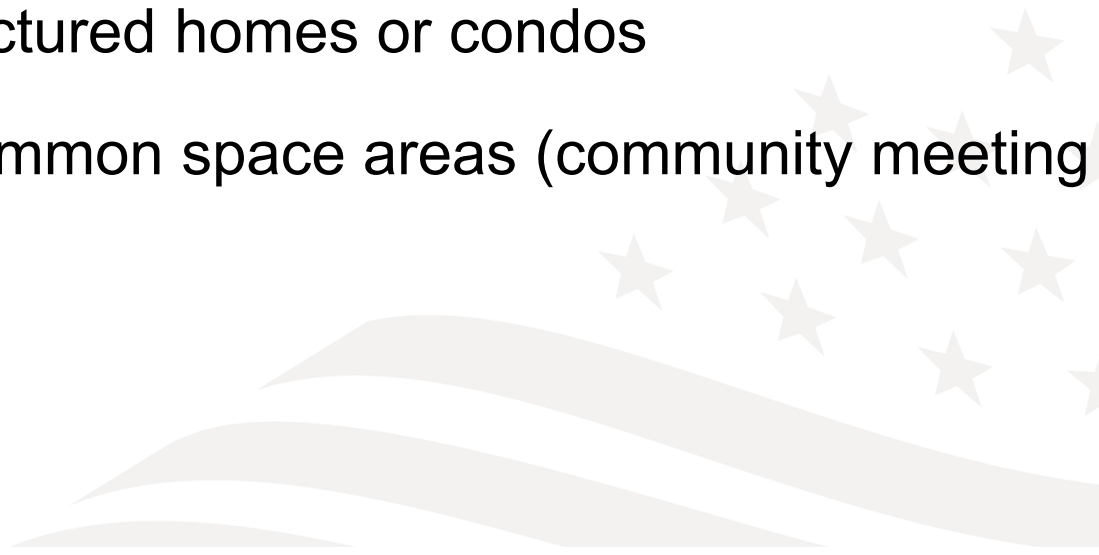
HB 12.28 - Purchase with Rehabilitation and Repair Loan

Prohibited Loan Purposes:

- Investment properties
 - Install new inground swimming pools, hot tubs, or saunas
 - Installation of luxury items (exterior fireplace and kitchen, etc.)
 - Convert existing structures to SFH dwellings
- 

HB 12.28 - Purchase with Rehabilitation and Repair Loan

Prohibited Loan Purposes:

- Alterations that allow income-producing features
 - Repair new or existing manufactured homes or condos
 - Repairs or improvements to common space areas (community meeting rooms, playground, etc.)
- 

7 CFR 3555 / HB-1-3555

LEARNING CHECKS



HB 12.28 - Purchase with Rehabilitation and Repair Loan

- Ben and Leslie want to purchase an existing dwelling for \$85,000.
- The home is habitable. Repairs include: carpet, tile, kitchen cabinets and countertops.
- Total repair cost is \$35,000 plus \$3,500 contingency and \$500 of permit/inspection fees.
- The “as improved” market value of the property is \$125,000.

This proposal is eligible for a rehab/repair loan.

True/False

HB 12.28 - Purchase with Rehabilitation and Repair Loan

Answer: TRUE

3555.107(d) and HB 12.28

Part One: Maximum Loan Amount

- Purchase Price: \$85,000 + \$39,000 repairs/fees/contingency = \$124,000
- As-Improved Value : \$125,000
- Maximum Loan amount: \$126,262.60
 - \$125,000 - \$124,000 = \$1,000 closing costs + \$1,262.62 GRH Fee

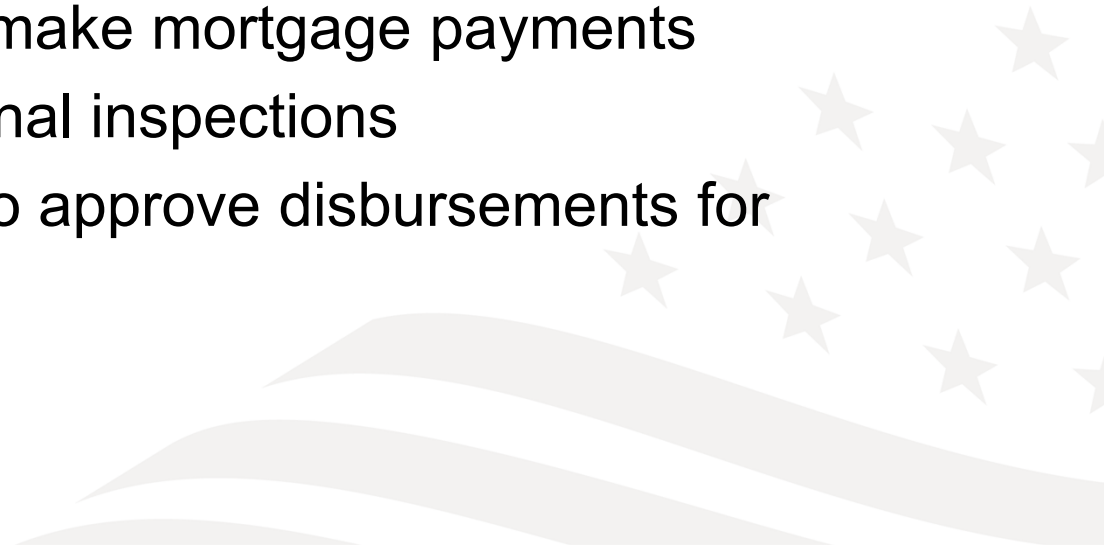
HB 12.28 - Purchase with Rehabilitation and Repair Loan

Answer: TRUE

3555.105 and HB 12.28

Part Two: Loan Eligibility

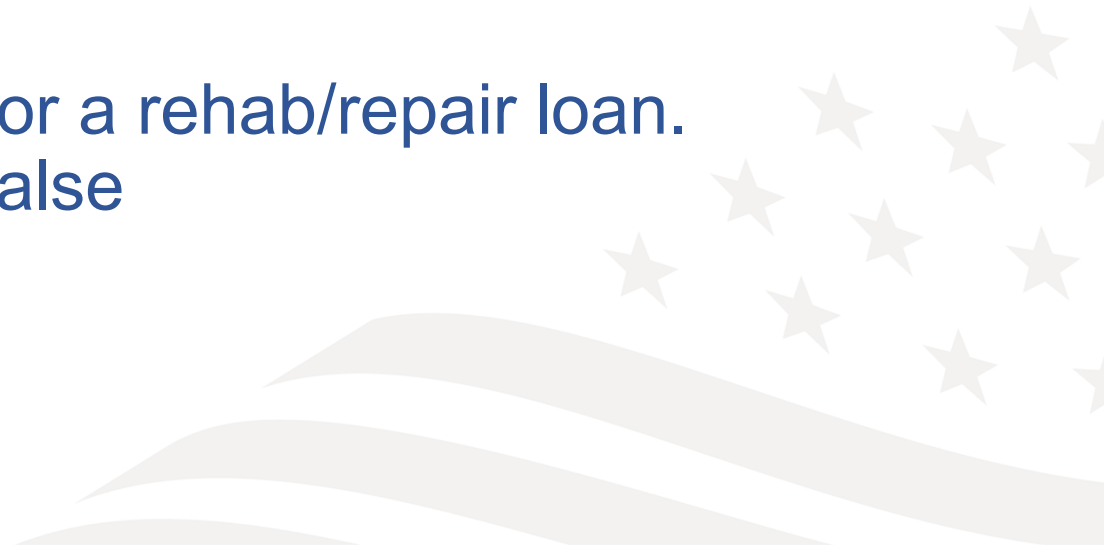
- Home is habitable
- Ben and Leslie may occupy and make mortgage payments
- Lender must obtain interim and final inspections
- Lender will work with borrowers to approve disbursements for completed work



HB 12.28 - Purchase with Rehabilitation and Repair Loan

- After the loan closes, Ben and Leslie decide they don't want to renovate kitchen and instead want to add a covered patio with an outdoor kitchen.

This proposal is eligible for a rehab/repair loan.
True/False

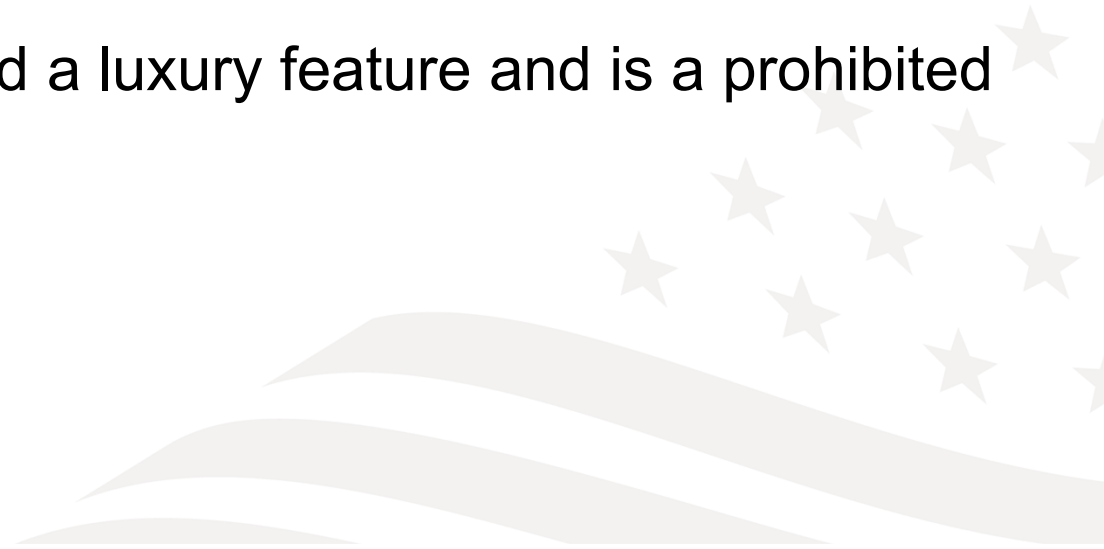


HB 12.28 - Purchase with Rehabilitation and Repair Loan

Answer: FALSE **3555.105 and HB 12.24 and 12.28**

Loan Eligibility

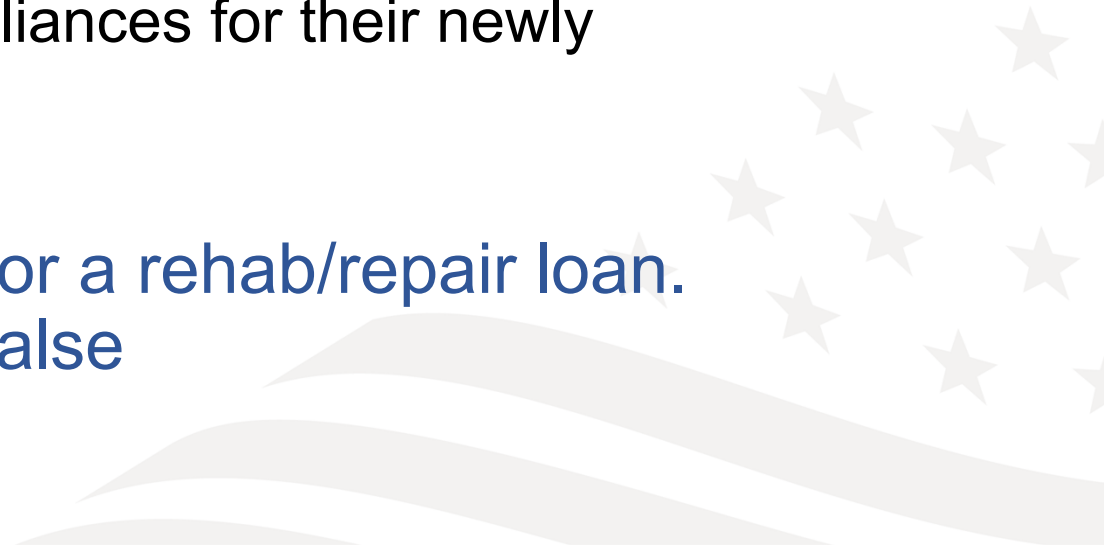
- Proposed changes should not affect the scope of the project and/or affect the appraised value.
- An outdoor kitchen is considered a luxury feature and is a prohibited loan purpose.



HB 12.28 - Purchase with Rehabilitation and Repair Loan

- Using the same scenario, Ben and Leslie have an unused balance in the contingency reserve in the amount of \$3,000. New appliances were not included in their contract. They want to use the funds to purchase appliances for their newly renovated kitchen.

This proposal is eligible for a rehab/repair loan.
True/False



HB12.28 - Purchase with Rehabilitation and Repair Loan

Answer: TRUE **3555.105 and HB 12.24 and 12.28**

Loan Eligibility

- The change order does not change the scope of the work.
- New appliances are an eligible loan purpose.



HB12.28 - Purchase with Rehabilitation and Repair Loan

- April and Andy want to purchase an old 2 bedroom, 1 bath home on a 1 acre lot for \$30,000
- They want to add 2 bedrooms and a full bathroom. They expect the cost to be at approximately \$50,000.
- The lender's qualified inspector determined that the structure is too dilapidated and not stable enough to withstand renovations.
- He determines the foundation to be structurally sound.

This proposal is eligible for a rehab/repair loan.

True/False

HB 12.28 - Purchase with Rehabilitation and Repair Loan

Answer: TRUE

3555.105 and HB 12.28

Part One: Loan Eligibility

- Obtain certification from qualified structural engineer that the existing foundation is sound.
- Qualified inspector assigned by their lender can develop a plan to raze the building and rebuild a new structure using the existing foundation.
- A qualified contractor can work with them to design and rebuild using the existing foundation and expand to suit their needs.
- The builder and inspector will work on the final cost estimate.

HB 12.28 - Purchase with Rehabilitation and Repair Loan

Answer: TRUE

3555.105 and HB 12.28

Part Two: Maximum Loan Amount

- The “As Improved” market value of the property must cover the costs to purchase, demolish, and renovate; including inspection fees, PITI reserves and contingency fees, if applicable.
- The dwelling is not habitable; PITI reserves may be established to cover mortgage payments up to 6 months.
- No loan modification needed. Borrower takes over mortgage payments when the dwelling is deemed habitable.

HB 12.28 - Purchase with Rehabilitation and Repair Loan

- April and Andy's final cost for demolition and construction of the dwelling is \$110,000, including inspection and permit fees.
- 10% contingency reserve would equal to \$11,000.
- 6 month PITI reserves equal to \$7,077.24
- "As Improved" market value is \$150,000.

This proposal is eligible for a rehab/repair loan.
True/False

A decorative graphic in the bottom right corner of the slide, featuring a cluster of light gray stars above several wavy, horizontal lines that resemble a stylized American flag.

HB 12.28 - Purchase with Rehabilitation and Repair Loan

Answer: TRUE 3555.105 and HB 12.28

Let's review:

Item	Amount
Maximum Loan Amount (\$150,000 + \$1,515.05 GRH fee)	\$151,515.15
Less Purchase/Demo/Reno Cost	\$140,000.00
Less financed GRH fee	\$ 1,515.15
Available Loan Funds	\$ 10,000.00

Remaining loan funds are not sufficient to cover both the 10% Contingency Reserves of \$11,000 and the 6-month PITI Reserves of \$7,077.24.

HB 12.28 - Purchase with Rehabilitation and Repair Loan

No problem!

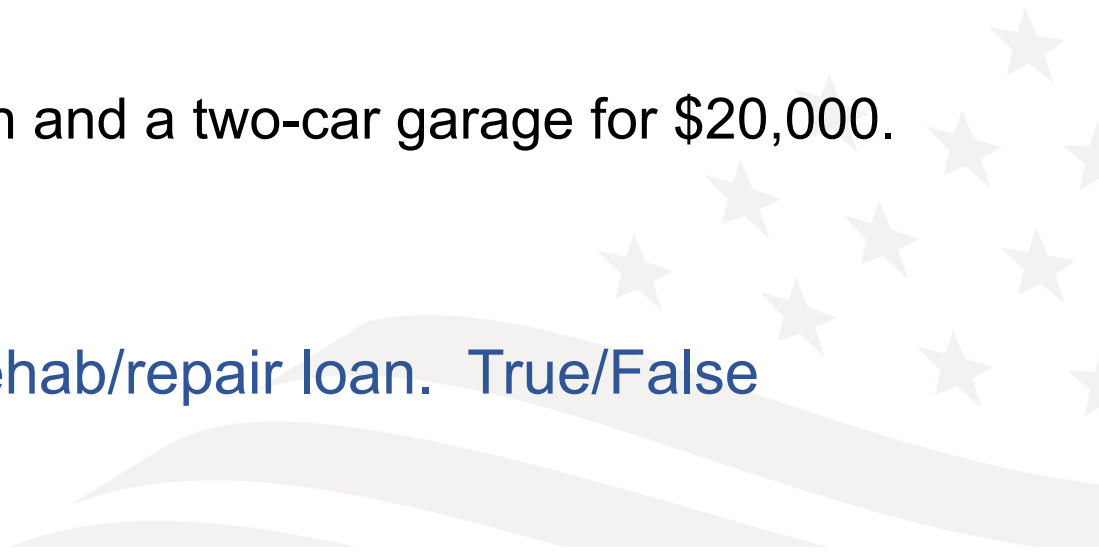
A few options:

- Fund one of the reserves and reduce the other; amounts may be adjusted,
- Borrower may fund the remaining amount needed out of pocket,
- Omit one reserve. April and Andy must have sufficient cash reserves to cover either PITI payments and/or costs for change orders/cost overruns, if they occur.

Contingency and PITI Reserves are recommended but are optional.



HB 12.28 - Purchase with Rehabilitation and Repair Loan

- Jack and Diane want to purchase a two year old manufactured home.
 - Home is on a permanent foundation.
 - No interior work is needed.
 - They want to add a covered porch and a two-car garage for \$20,000.
 - This proposal is eligible for a rehab/repair loan. True/False
- 

HB 12.28 - Purchase with Rehabilitation and Repair Loan

Answer: FALSE **3555.102, 3555.105 and HB 12.28**

- Manufactured homes, condominiums and newly constructed homes are not eligible.



HB 12.28 - Purchase with Rehabilitation and Repair Loan



- This is a 100% LTV program.
- Include the amount of contingency and reserves in the construction contract
- Contract or worksheet similar to HUD 203(k) Form 92700

USDA LINC: Training and Resource Library

<https://www.rd.usda.gov/programs-services/lenders/usda-linc-training-resource-library>

USDA United States Department of Agriculture Rural Development

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7 CFR 3555 | Electronic Status Reporting | Guaranteed Annual Fee | Guaranteed Underwriting System | Lender Loan Closing | Loss Claim Administration | Loan Origination | Loss Mitigation | Property Disposition | Security

The documents and material contained in the USDA LINC Training and Resource Library use Adobe PDF and Adobe Connect. To view PDF files you must have Adobe Acrobat Reader installed on your computer.

7 CFR 3555

Training

NEW: HB-1-3555 Chapter 9 Revision Overview (Webcast) 13 minutes

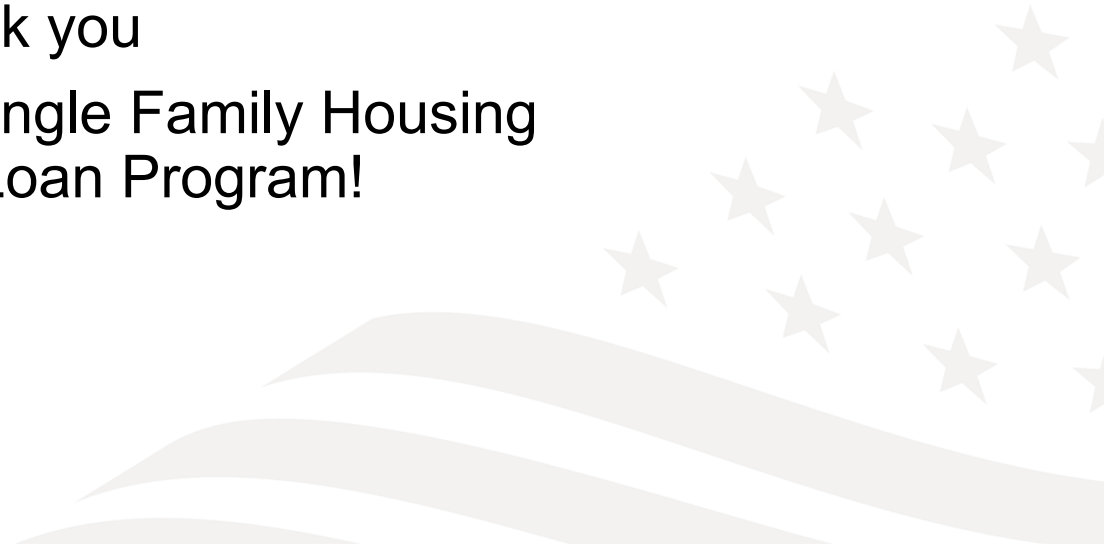
- Revision Overview: 1 slide per page (Training Handout)
- Revision Overview: 2 slides per page (Training Handout)
- Revision Overview: Slide with Notes (Training Handout)
- HB-1-3555 Chapter 9 FAQs

1 Become an Approved Lender (Webcast) 16 minutes

- Become an Approved Lender: 1 slide per page (Training Handout)
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