Purchase with Rehabilitation and Repair Loans

Single Family Housing Guaranteed Loan Program

USDA Rural Development
U.S. DEPARTMENT OF AGRICULTURE

Welcome to the Purchase with Rehabilitation and Repair Loans, presented by USDA's Single Family Housing Guaranteed Loan Program!

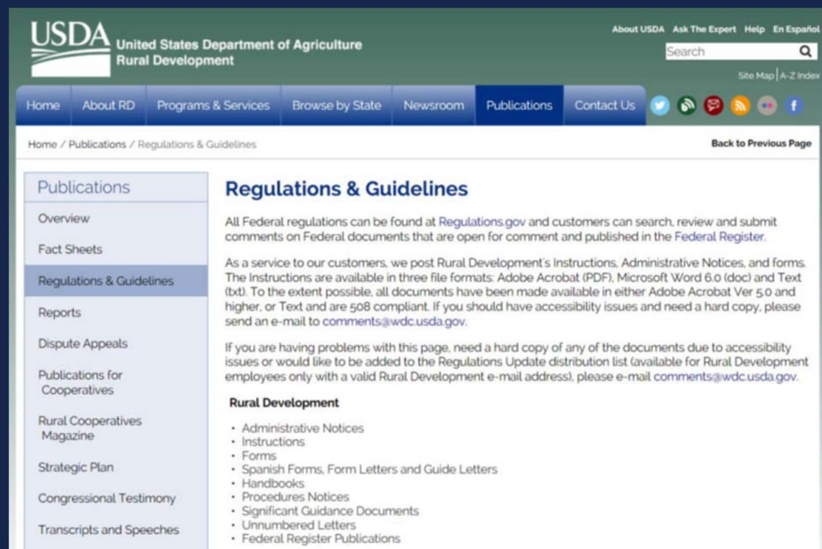
Training Objectives:

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

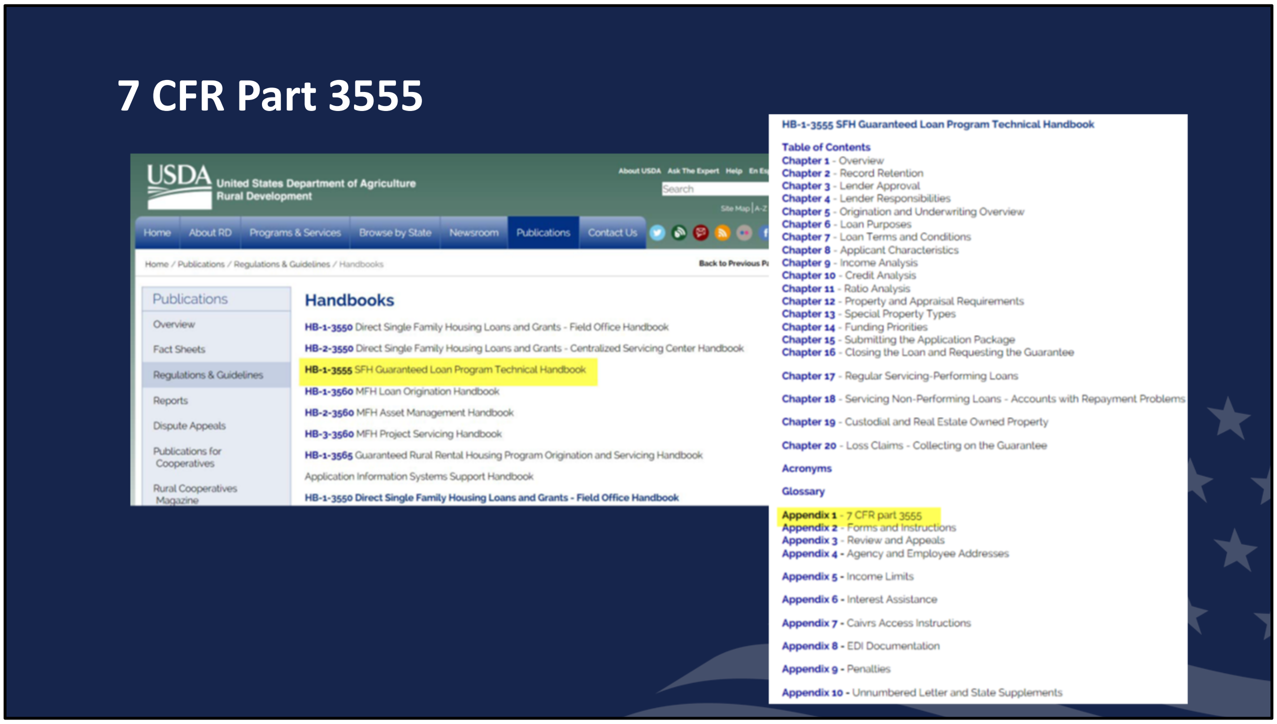
Our objective today is to introduce you to the training topic in the program regulation, 7 CFR Part 3555 and the technical handbook, HB-1-3555
Provide learning checks on the topic to help you gain knowledge of the topic,
And provide you with other online resources to assist your training needs.

7 CFR Part 3555

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



Every effort has been made to ensure this training and all reference 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 regulations, 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 cannot be overridden by the technical handbook. You can access the technical handbook 3555 and the full regulation 7 CFR 3555 online from the Regulations and Guidelines website.

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.

The regulation 7 CFR Part 3555 is listed in Appendix 1.

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7 CFR Part 3555

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

The information pertaining to the Rehab and Rehabilitation loan option is located in the regulation in Subpart C, Section 3555.104 and 3555.105.
Guidance on the Single Close Combination Construction to Permanent Loans including the Rehabilitation and Repair loan option is located in Chapter 12 of HB 1-3555.

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

Applicant Advantages:
The purchase with repair and rehabilitation option is a new feature of the single-close construction program.
Borrower may customize repairs or improvements along with the purchase of an existing home.
The loan for the purchase and repairs are all done in one closing.
Loan funds may only be used for eligible loan purposed as outlined in the regulation.

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

Existing dwellings do not need to have current equity.
This is still 100% financing program.
The maximum loan may be up to the “as improved” market value plus the amount of the upfront guaranteed fee.
Since the loan is amortized at 30 years, there is no need to reamortize or modify the loan agreement.

HB 12.28 - Purchase with Rehabilitation and Repair Loan

Applicant Advantages

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

An additional advantage for applicants is that repairs may be made to correct deficiencies or to modernize the dwelling.
The program helps revitalize existing housing stock making housing more affordable and allows borrowers to retain cash reserves after closing since repairs will be made using loan funds.

HB 12.28 - Purchase with Rehabilitation and Repair Loan

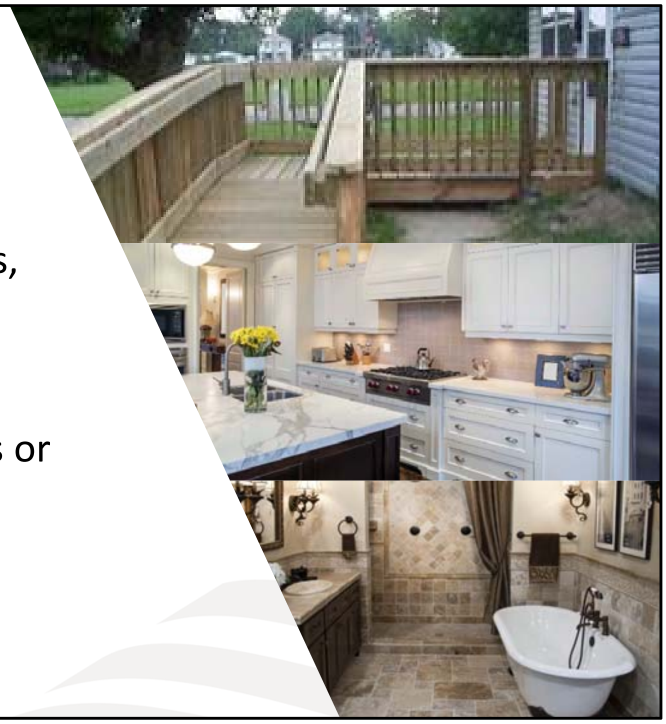
Lender Advantages

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

Advantages to the Lender:
One of the biggest advantages to the lender is reduced risk!
The Loan Note Guarantee is issued at loan closing.
Lenders do not need to wait until the repairs have been completed to get the loan guarantee.
The issuance of the Loan Note Guarantee allows for immediate securitization of the loan.
Lenders are able to immediately sell the loans to the secondary market and thus recover their costs prior to the completion of repairs.

Eligible Loan Costs

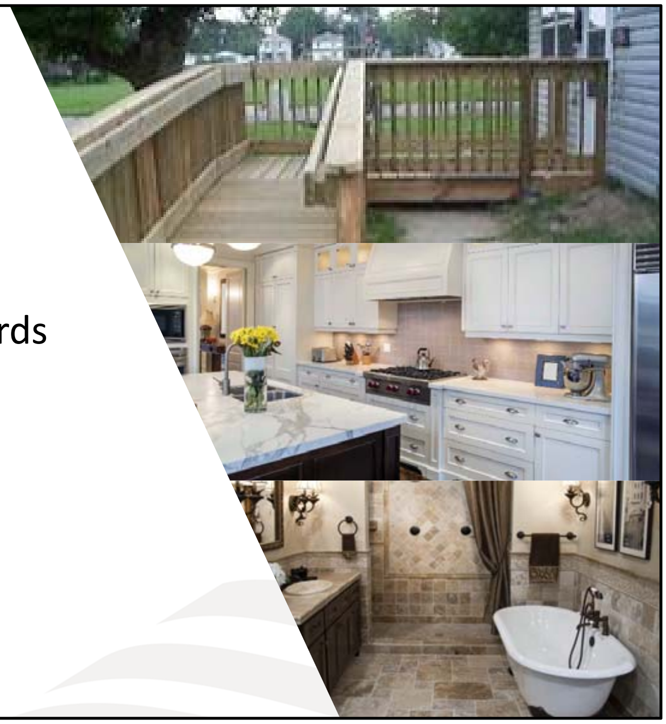
- Upgrade/modernize kitchens, bathrooms, interior floor covers, etc.
- Create accessible amenities to accommodate disabilities
- Additions, structural alterations or reconstruction
- Install energy conservation or weatherization features



Eligible Loan Costs:
Loan funds may be used to improve or modernize an existing dwelling. Such as the updating kitchens and bathrooms, interior floor covers, etc.
Loan funds my be used to create accessible amenities making dwellings accessible to persons with disabilities.
Construct additions or structural alternations making a dwelling larger by adding bedrooms or expanding living areas.
Or installing energy conservation and/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



Other examples of eligible loan costs include installation or repair of septic systems or water wells, removing safety and health hazards and even making repairs to existing amenities such as swimming pools, saunas and accessory units.

These are just a few examples.

Once again, loan funds may only be used for eligible loan purposes as outlined in the regulation. Loan funds that remain upon construction completion must be applied as a principal reduction.

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

Non-Structural Repairs:
There are two features available with this program.
Non-structural feature is for those repairs, such as replacing floor cover, roofing material or windows and doors to mention a few, that do not exceed a cost of $35,000.
There is no minimum repair amount but the dwelling must be deemed habitable through the renovation period.
A contingency reserve account may be established to cover cost overruns or change orders. Any unused funds must be applied to principal reduction.
For additional details on loan terms please see Chapter 12, section 12.28.

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.

Structural Repairs:
For repairs requiring structural work , or repairs that exceed $35,000 in costs, a qualified inspector, such as a HUD Inspector, will be assigned by the lender to inspect and provide a detailed plan of the work to be completed.
In addition to the contingency reserves allowed, the loan may also include PITI reserves to cover up to 6 months of the borrower’s loan payments during the construction period when the dwelling is not deemed habitable.
Once the inspector determines the dwelling may be occupied, the borrower will take over payments.
Any unused funds from the PITI reserve will be applied to the principal loan amount.

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Prohibited Loan Purposes:

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

Prohibited Loan Purposes:
All SFHGLP loans are for borrowers who intend to occupy the property as their primary residence and who meet the requirements of 7 CFR 3555. In other words, investment properties are not allowed.
Installation of luxury items such as swimming pools, exterior fireplaces or kitchens are also prohibited.
The dwelling must also have been previously used for housing purposes. Therefore, the conversion of any building such as a barn or schoolhouse into a single-family housing dwelling are not eligible.

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.)

In addition, any alterations that would allow the property to have income-producing features are not allowed.
Repairs or improvements to new or existing manufactured homes and condominiums are also prohibited.
Repairs to common areas, playgrounds are other shared areas are ineligible.

HB12.28 - Purchase with Rehabilitation and Repair Loan

7 CFR 3555 / HB-1-3555

LEARNING CHECKS

Now that we have reviewed the do's and don'ts, let's go over some learning checks!

Let's read the question on the slide and select a response.

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

The answer is True.
As you can see, Ben and Leslie can finance the purchase plus the cost of repairs and still have equity of $1,000 for closing costs. In addition, they can exceed the As Improved market value by the amount of the financed 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

Part two of the question is also True.
Since the home is habitable, Ben and Leslie may occupy the property and must make the mortgage payments.

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

Question number two.

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

Let's look at different scenario:

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.

The answer is true if all of the following requirements are met:

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.

Part two of the question is also True.

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

Using the same scenario…

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.

The answer is True. Let's review:
1) The maximum loan amount is the total of the As Improved market value of $150,000 plus $1,515.05, the amount of the financed GRH fee which totals $151,515.15.
2) Remember, the cost to purchase the property was $30,000 plus the demo and renovation costs of $110,000 for a total cost of $140,000
3) After deducting the eligible loan costs from the maximum loan amount, there is $10,000 remaining. However, this is not enough to cover both the 10% contingency reserve in the amount of $11,000 and the PITI reserves in the amount of $7,077.24. Can we proceed?

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.

Yes, we can still proceed with the loan!
The borrower and lender may decide to only fund one of the reserves or reduce the amount of the other.
If the borrower has available funds, they may fund the remaining reserve account.
Or, one of the reserves may be omitted if the borrowers have cash reserves to cover PITI payments and change orders.
We highly recommend PITI and contingency reserves but they 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

Let's look at another scenario:

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.

The answer is False.
Manufactured homes, condominiums, and newly constructed homes are not eligible for the Rehabilitation and Repair loan.

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

In review:
This is a 100% LTV program.
Therefore, it is important to include the amount of contingency and reserves in the construction contract or a worksheet similar to the HUD 203(k) Form 92700 to be submitted to the appraiser. This will increase the likelihood that the property will appraise at the amount needed to include all costs associated with the purchase and renovation in the mortgage loan.

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USDA LINC: Training and Resource Library

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

And as a reminder, the USDA LINC Training and Resource Library is a wealth of training and documentation resources. New items will be posted as they become available.

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Thank you

for supporting the Single Family Housing Guaranteed Loan Program!

This concludes this presentation of the Purchase with Repair and Rehabilitation program. Please review Chapter 12 of HB 1-3555 for additional guidance on the single-close, construction to permanent loan program. Thank you and have a great day!

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