



Rural Development

May 23, 2019

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TO: State Directors
Rural Development

ATTN: Program Directors
Single Family Housing

FROM: Richard A. Davis /s/ **Richard A. Davis**
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SUBJECT: Single Family Housing Section 504 Repair Pilot

This Unnumbered Letter (UL) is issued to announce a pilot program intended to evaluate the existing regulations and remove regulatory barriers to assist eligible applicants.

On October 5, 2017, Single Family Housing Direct Loan Division (SFHDLD) published Procedure Notice 504 which established eligibility decisions based on adjusted annual household income and a total debt ratio of forty-six percent (46%). Revisions also included a minimum amount for initial loans, relaxing the appraisal requirement, eliminating unnecessary field visits, and establishing a streamlined credit evaluation. Section 504 and 504 Pilot training materials can be found in [SharePoint](#) at SFH > Direct > Training > National Office Training Material > PN 504 Chapter 12 Training.

While the Fiscal Year 2018 repair loan obligation amount was the largest in the past several years, over \$8 million in appropriated repair loan funds were not obligated. The pilot program is an opportunity to increase loan and grant production and reduce restrictions that impede the Section 504 repair program. The pilot program removes the requirement for title clearance, site size restrictions, expands the insurance, escrow and appraisal requirements, and increases the maximum allowable loan and grant amounts.

EXPIRATION DATE:
May 31, 2020

FILING INSTRUCTIONS:
Housing Programs

The pilot will waive various regulatory requirements for Section 504 loans and grants, as described in this UL.

Pilot loan and grant applications will not be subject to the restriction in 7 CFR § 3550.105(b) which references the site must not be large enough to be subdivided into more than one site under existing zoning ordinances. The following property requirements remain unchanged, must meet area loan limits, must not be used for agricultural or income producing purposes and be modest for the area. Waiving the prohibition on non-subdividable properties will allow more rural applicants to be eligible.

Secured pilot loans exceeding \$25,000 will be subject to the requirements in 7 CFR § 3550.108(b) for title clearance/title insurance and the use of a closing agent. This exception for smaller secured loans will reduce the financial burden on applicants with minimal additional risk to the Agency. Pilot loans remain subject to Truth in Lending Real Estate Settlement Integrated Disclosure (TRID) requirements including a Loan Estimate, Closing Disclosure, and Notice of Right to Cancel. Initial and subsequent loans may be closed with a best lien obtainable. Rural Development staff will conduct loan closings and ensure security instruments are recorded. The applicant must have acceptable ownership interest in the property as evidenced by formats allowed in 7 CFR § 3550.107, with the exception of alternate forms of ownership 3550.107(g). The elimination of title clearance removes confirmation of ownership interests; therefore, alternate forms of ownership under 3550.107(g) are not suitable and jeopardize the Agency's interest.

Generally, secured pilot loans will not be subject to the 7 CFR § 3550.111 requirement for appraisals. However, an "as improved" appraisal and associated appraisal fee will be required when the assessed valuation by local authorities does not support a fully secured interest by the Agency, or when the sum of all secured indebtedness including the proposed repair loan, exceeds \$25,000.

Pilot loans and grants will not be subject to the maximum allowable limits currently imposed by 7 CFR § 3550.112(a-c). Pilot loans may be approved up to a maximum unpaid Section 504 loan balance of \$40,000 and \$10,000 in Section 504 lifetime grant assistance. These increases reflect the inflation of labor and material costs.

Pilot loans will be subject to the 7 CFR § 3550.109 requirement for an escrow account for real estate taxes and hazard insurance when the sum of Section 504 secured indebtedness exceeds \$15,000. When hazard insurance is either not in place or available, pilot loans will include an escrow account for taxes and force placed insurance coverage in the amount of the Section 504 indebtedness. Flood insurance requirements remain unchanged for this pilot.

The pilot program is anticipated to continue for two fiscal years, at which time the Agency will evaluate annually to determine if the pilot will be extended. The pilot may be modified or terminated at any time at the Agency's discretion. The following twenty-one (21) States and U.S. Territories are selected to provide wide geographic and historic production variation:

California, Hawaii, Illinois, Indiana, Iowa, Kentucky, Maine, Michigan, Mississippi, New Jersey, New Mexico, New York, North Carolina, Oregon, Pennsylvania, Puerto Rico, South Carolina, Texas, Tennessee, Washington, and West Virginia.

The pilot will be limited to fiscal years 2019 and 2020. If an existing borrower qualifies for a subsequent loan or grant during the pilot period, the pilot will apply to the subsequent request. Affordability will be analyzed according to income, repayment ratios and compensating factors established in paragraphs 12.4 D and 12.7 (HB-1-3550).

For questions pertaining to this UL, please contact Danielle Eason, Finance and Loan Analyst, at danielle.eason@usda.gov, or phone (202) 690-1530.