Purchase with Rehabilitation and Repair Loans
Single Family Housing Guaranteed Loan Program
Training Objectives:

• Where is the topic located?
  7 CFR 3555, and HB-1-3555

• Learning Checks

• Resources
7 CFR Part 3555
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-1-3555 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

Appendix 1 - 7 CFR part 3555
7 CFR Part 3555

• § 3555.104 Loan Terms.
• § 3555.105 Combination construction and permanent loans.
Applicant Advantages

- Purchase existing dwelling
- Customize improvements
- One loan closing
- Funds to purchase the dwelling and provide eligible rehabilitation
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
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.
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
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
• 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
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
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
• 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.
• 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
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.
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
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.
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.
• 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
HB 12.28 - Purchase with Rehabilitation and Repair Loan

Answer: TRUE 3555.105 and HB 12.28

Let’s review:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum Loan Amount ($150,000 + $1,515.05 GRH fee)</td>
<td>$151,515.15</td>
</tr>
<tr>
<td>Less Purchase/Demo/Reno Cost</td>
<td>$140,000.00</td>
</tr>
<tr>
<td>Less financed GRH fee</td>
<td>$1,515.15</td>
</tr>
<tr>
<td>Available Loan Funds</td>
<td>$10,000.00</td>
</tr>
</tbody>
</table>

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.
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.
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
Answer: FALSE 3555.102, 3555.105 and HB 12.28

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