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

- § 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
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.

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
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.)
• 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.

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### 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.

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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
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

<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.

Answer: TRUE 3555.105 and HB 12.28
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
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
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