Appraisal and Property Requirements

Presented by: Kendra Harmon, Finance and Loan Analyst, Lender and Partner Activities Branch
Today’s Topics

- Regulation 7CFR Part 3555 Subpart E
- SFHGLP Handbook 1-3555, Chapter 12
- Property & Site Requirements
- Appraisal Review Tips
- Frequently Asked Questions
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Site Requirements

- Must be located in rural areas designated by Rural Development
- Must be modest in size and site typical for area
- Must not have income-producing land or buildings
- Must have contiguous to and have direct access from a street, road or driveway
- Must be supported by adequate utilities, water and wastewater
# Dwelling Requirements

## New

- Must be constructed in accordance with certified plans and specs
- Must meet or exceed IECC in effect at time of construction
- Lender to obtain/retain evidence of construction costs, inspections, certifications & warranties
- All must be acceptable to Rural Development

## Existing

- Must meet HUD 4000.1 requirements
- Must be functionally adequate & structurally sound
- Must be in good repair, or placed in good repair with loan funds
- Must have adequate and safe electrical, heating, plumbing, water and wastewater
Condominiums and Planned Unit Developments

Condos & PUDs must meet Agency requirements as well as HUD, VA, Fannie Mae or Freddie Mac standards.
Handbook: HB-1-3555

Chapter 12: Property and Appraisal Requirements
In general, rural areas are defined as:

- Open country that is not part of, or associated with, an urban area;
- Any town, village, city, or place, including the immediately adjacent densely settled area, which is not part of, or associated with, an urban area, and which:
  - Is rural in character with a population of less than 10,000; or
  - Is not contained within an MSA and has a population above 10,000 but below 20,000 and has a serious lack of mortgage credit for lower and moderate-income families. Any area classified as “rural” or a “rural area” prior to October 1, 1990, and determined not to be “rural” or a “rural area” as a result of data received from or after the 1990, 2000, or 2010 decennial census, and any area deemed to be a “rural area” any time during the period beginning January 1, 2000, and ending December 31, 2010, shall continue to be so classified until the receipt of data from the decennial census in the year 2020 if such area has a population in excess of 10,000 but not in excess of 35,000, is rural in character, and has a serious lack of mortgage credit for lower and moderate-income families.
- Two or more towns, villages, cities, or places that are contiguous may be considered separately for a rural designation if they are not otherwise associated with each other, and their densely settled areas are not contiguous.
USDA Property Eligibility Site
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Website</strong></td>
<td><a href="https://eligibility.sc.egov.usda.gov">https://eligibility.sc.egov.usda.gov</a></td>
</tr>
<tr>
<td><strong>Eligible</strong></td>
<td>Property is located in an eligible area for the SFHGLP</td>
</tr>
<tr>
<td><strong>Unable to Determine</strong></td>
<td>Lender must contact Agency to determine location eligibility</td>
</tr>
<tr>
<td><strong>Ineligible</strong></td>
<td>Property is not located in an area eligible for the SFHGLP</td>
</tr>
</tbody>
</table>
## Site Requirements

<table>
<thead>
<tr>
<th><strong>Site Size</strong></th>
<th><strong>Income-Producing Buildings</strong></th>
<th><strong>Accessory Dwelling Unit</strong></th>
<th><strong>Income-Producing Land</strong></th>
<th><strong>Multiple Parcels</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>There is no specific limitation to the size/acreage if the site.</td>
<td>The property must not include buildings principally used for income-producing purposes.</td>
<td>The presence of an ADU does not automatically render the property ineligible.</td>
<td>The site must not have income-producing land that will be used principally for income producing purposes.</td>
<td>The lender will ensure the mortgage provides a valid 1st lien covering each parcel.</td>
</tr>
</tbody>
</table>
Solar Panels

In general, properties with solar panels are not considered income producing properties.
## Site Requirements

<table>
<thead>
<tr>
<th>Site Specifications</th>
<th>Site Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Site Requirements</td>
<td>The site must be contiguous to and have direct access from a street, road, or driveway.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Utilities</th>
<th>Site Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities</td>
<td>The site must be supported by adequate utilities, water and wastewater systems.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Zoning</th>
<th>Site Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zoning</td>
<td>The property must comply with applicable zoning and restrictions.</td>
</tr>
</tbody>
</table>
remoteness of the site must not be considered; however, factors that impact the site such as immediate proximity to a feedlot, factory, or other similar considerations should be included. If the appraiser is using the income approach, they must explain why the income and expenses used are comparable to the subject property. When a market is established in these areas, the Agency will again require the sales comparison approach to be used.

12.6 **WATER AND WASTEWATER DISPOSAL SYSTEMS [7 CFR 3555.201]**

The site must have acceptable water and wastewater disposal systems to ensure the property is decent, safe, sanitary, and meets community standards. Public water and wastewater disposal systems are presumed to meet state and local requirements with no additional documentation or inspections. Private well and wastewater systems that meet the requirements in HUD Handbook 4000.1 or meet the requirements of local and/or state health authority do not require additional inspections other than water purity tests as discussed in this section. Evidence will be retained in the lender’s permanent loan file.

A. Water

Water systems, for existing or new construction, that require continuous or repetitive
# Water Systems

<table>
<thead>
<tr>
<th>Individual Privately Owned</th>
<th>Vs.</th>
<th>Individual Privately Owned Shared</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned and maintained by the homeowner &amp; subject to compliance with all requirements of the local and/or State Health codes.</td>
<td>Well serves properties that cannot be connected to an acceptable public or community water supply system.</td>
<td></td>
</tr>
<tr>
<td>Well location for individual water supply systems must be measured to establish the distance from the septic system.</td>
<td>A shared well must have a valve on each dwelling.</td>
<td></td>
</tr>
<tr>
<td>Individual water systems/wells should be located on the subject property site.</td>
<td>Water supply must be adequate for all families served.</td>
<td></td>
</tr>
<tr>
<td>Water quality of well must meet requirements of the state or local authority.</td>
<td>Well must have an agreement that meets requirements.</td>
<td></td>
</tr>
</tbody>
</table>
System and water supply meet all applicable federal, state and local requirements.

System has the capacity to provide sufficient water supply during periods of peak demand.

System is operated under a legally binding agreement that allows interested third parties to enforce the obligation of the operator to provide satisfactory service.
Individual Water Systems in Hawaii and Western Pacific Region

- Property is located in Hawaii or the Western Pacific Region
- Property does not have an available affordable connection to a public or private community water system
- An alternative water supply system complies with and/or is not prohibited in local jurisdiction where property is located
- Water quality tests are not required if state or local authority does not have specific requirements
- Reliance on rainwater catchment system does not diminish the marketability or value of the property
- Applicant must acknowledge and certify their responsibility to maintain system
## Wastewater Systems

<table>
<thead>
<tr>
<th>Individual Privately Owned</th>
<th>Wastewater</th>
<th>Community Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meets any applicable requirements of the state or local health authority</td>
<td>Properly operating system that has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health</td>
<td>Meets any applicable requirements of the state of local health authority</td>
</tr>
<tr>
<td>Is located entirely on the subject property</td>
<td></td>
<td>Is licensed, operating properly and has the capacity to dispose of all domestic wastes in a manner that will not create a nuisance or endanger public health</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Is subject to a legally binding agreement that allows interested parties to enforce the obligation of the operator to provide satisfactory service</td>
</tr>
</tbody>
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12.7 STREET ACCESS AND ROAD MAINTENANCE [7 CFR 3555.201]

A. Access

The site must be contiguous to, and have direct access from, a public or private street, road, or driveway. Private roads or streets are acceptable provided each property has vehicular or pedestrian access. Private roads or streets must be protected by permanent recorded easement (non-exclusive and non-revocable easement without trespass from the property to a public street) or the street must be maintained by a homeowner’s association (HOA). Shared driveways must also meet these requirements requiring a permanent recorded easement for ingress and egress. This agreement must be binding to successors and title. A copy of a title report, retained in the lender’s mortgage file, may be used to evidence the easement. Private streets must have a permanently recorded easement be owned and maintained by a HOA. All evidence of recorded easements or maintenance agreements must be reviewed and approved by the approved lender’s underwriter and documented in the lender’s permanent loan file.

B. Maintenance

Streets and roads must be hard surfaced or all-weather surfaced. An all-weather surface is a road surface over which emergency and the area’s typical passenger vehicles can pass at all times. A publicly maintained road is automatically assumed to meet this requirement. If a HOA is responsible for maintaining streets and roads, it must meet the criteria set forth by Fannie Mae, Freddie Mac, the U.S. Department of Housing and Urban Development (HUD), or U.S. Department of Veterans Affairs (VA).
Reviewing an Appraisal
Reviewing an Appraisal

The Appraiser Should...
Reviewing an Appraisal

The Lender Should...
Reviewing an Appraisal

The Lender Should...
Reviewing an Appraisal

The Lender Should...
Reviewing an Appraisal

The Agency Should…
Frequently Asked Questions...

Trivia Time
An applicant would like to purchase a dwelling and an adjacent, vacant lot with the same USDA loan. Is this acceptable?
Yes, in some cases, the applicant may purchase multiple parcels, remembering that the program does not allow for income producing property and the intention should not be to purchase an adjoining buildable lot to construct a rental property.

**HB-1-3555, Chapter 12 – Multiple Parcels** – The lender will ensure the mortgage provides a valid first lien covering each parcel in its entirety and have the same zoning. Parcels must be contiguous unless divided by a road and the remaining parcel cannot be developed. The entire property will contain only one dwelling but can have non-residential, non-income producing buildings, such as a garage.
An appraisal was received showing the subject property with a garage that was converted into a living area with no permits. No value was given to the space. Cost to cure was noted within the report.

This resulted in non-traditional cost comparisons and large adjustments to comparables.

Is this property eligible for a loan note guarantee?
Yes. The lender may move forward, as long as certain conditions are met:

**HB-1-3555, Chapter 12 – Additions** – New structures or additions to the existing dwelling must comply with local codes and applicable national codes.

**HB-1-3555, Chapter 12 – Unpermitted Work** – When unpermitted work is discovered in the existing dwelling, the lender must ensure that the owner and/or contractor contact the appropriate code enforcement office to obtain retroactive permitting or devise a plan to permit the previous construction. The lender must ensure that the borrower obtains a rehabilitation loan permit certification prior to the loan closing so that all permit fees associated with the new and/or previous construction are included in the total bid.
An appraisal was received on a property that identified the property as a mini farm with two parcels for a total of 28 acres. A letter of explanation was provided from both seller and buyer that the property will no longer be a working farm once the buyer completes the purchase.

Is this acceptable for a loan note guarantee?
Unfortunately, the answer is no. The Rural Development Guaranteed Loan Program cannot be used to finance income producing property, regardless of the applicant’s future intent.

**HB-1-3555 – Income Producing Land** – The site must not have income-producing land that will be used principally for income producing purposes. Vacant land or properties used primarily for agricultural, farming or commercial enterprise are ineligible.

Since the property is currently a working farm, it does not meet the qualifications for a loan note guarantee.
An appraisal was received reflecting a single family residence with noted ADU and two additional storage units. The ADU is a stand-alone structure and has a kitchen, bedroom and bath. There was not a separate meter for the ADU. The appraiser has noted this is a single family dwelling.

Is this acceptable for a loan note guarantee?
Yes. This property would be eligible for a loan note guarantee.

HB-1-3555, Chapter 12 – Accessory Dwelling Unit – The presence of an accessory dwelling unit (ADU) does not automatically render the property ineligible. The appraiser will determine if the ADU represents a second single family housing dwelling unit. The Agency defers to the appraiser’s professional review of the property and expert opinion of the highest and best use of the subject property as a primary residence. The appraiser will include their evaluation in the site analysis section of the appraisal.
A review of an appraisal reveals a 2-unit property, or duplex. The dwelling is zoned as a single family. The zoning department will not accept 2-unit properties so the appraiser completed the appraisal as a single family home.

The applicant would like to have the kitchen removed from the second unit in order to receive a loan note guaranteed. Is this acceptable?
No. This property would not be eligible for a loan note guarantee. Two unit properties are considered income producing properties.

**HB-1-3555, Chapter 12 – Income Producing Property –**
Purchase or improvement of income-producing land or buildings that will be used principally/specifically for income producing purposes is not allowed. A qualified property must be predominantly residential in use, character and appearance.

Rural Development cannot encourage sellers or buyers to alter a property, as that could appear to circumvent the regulations in order for the property to qualify.
Is a cistern an acceptable water source?
Yes. If the system meets the HUD Handbook 4000.1 or the standards set by the state or local health department code.

**HB-1-3555, Chapter 12 – Water and Wastewater Disposal Systems**

The site must have acceptable water and wastewater disposal systems to ensure the property is decent, safe, sanitary, and meets community standards. Private systems must meet the requirements in HUD Handbook 4000.1 or meet the requirements of local and/or state health authority do not require additional inspections other than water purity tests.

We defer to the MPR requirements in HUD Handbook 4000.1 which state, in part: The Appraiser must report when water to a Property is supplied by dug wells, cisterns or holding tanks used in conjunction with water purchased and hauled to the site.
Is a “shouse” (pole-built house) eligible for the Single Family Housing Guaranteed Loan Program?
Yes. As long as the property meets the requirements of HUD Handbook 4000.1 as certified to by an appraiser or inspector determined qualified by the lender.

**HB-1-3555, Chapter 12 – Qualified Appraiser** – Approved lenders must select qualified and competent appraisers that are properly licensed or certified, as appropriate, in the State in which the property is located.

**HB-1-3555, Chapter 12 – Appraisal Report** – All appraisals must comply with the reporting requirements of the USPAP and meet the Uniform Appraisal Dataset (UAD) requirements set forth by Fannie Mae and Freddie Mac.

The appraiser will need to be able to find comparable properties to support the value.
An applicant wishes to purchase a property that is considered “off the grid” with alternative energy and utilities sources, such as a solar unit with battery back up and a wood burning stove as a heat source. Location eligibility has been determined to be eligible for the program.

Would this property be eligible for the guaranteed loan program?
Yes. As long as the property, including water, electrical, etc. meet the requirements of HUD Handbook 4000.1.

**HB-1-3555, Chapter 12 – Qualified Appraiser** – Approved lenders must select qualified and competent appraisers that are properly licensed or certified, as appropriate, in the State in which the property is located.

**HB-1-3555, Chapter 12 – Appraisal Report** – All appraisals must comply with the reporting requirements of the USPAP and meet the Uniform Appraisal Dataset (UAD) requirements set forth by Fannie Mae and Freddie Mac.

The appraiser or inspector would need to make that certification/determination if any repairs would be required to meet HUD Handbook standards as well as provide comparable properties to support value.
Is a condominium that is not on the FHA approved condominium list, but meets Fannie Mae guidelines eligible for the Guaranteed Loan Program?
Yes. Units in a condominium project may be eligible if the condominium has been approved or accepted by HUD/FHA, VA, Fannie Mae, or Freddie Mac.

**HB-1-3555, Chapter 12 – Condominiums**– For all loans secured by a condominium unit, in a condominium project, the lender must perform an underwriting review of the condominium project to ensure the unit is approved or accepted by HUD/FHA, VA, Fannie Mae, or Freddie Mac.

The lender must document their decision and retain all supporting information in the permanent loan file.
Frequently Asked Questions…

Are in-ground swimming pools permitted in the single family housing guaranteed loan program?
Yes. The Agency may approve dwellings with in-ground swimming pools.

HB-1-3555, Chapter 12 – Existing and New Dwellings – The objective of the SFHGLP is to assist eligible rural households in obtaining an adequate, safe, and sanitary single-family home. An existing dwelling may be attached, detached or semi-detached dwellings and must be inspected to determine the dwelling meets the current minimum property requirements of the Single Family Housing Policy Handbook (SF Handbook; HUD Handbook 4000.1

- The Agency may approve dwellings with in-ground swimming pools
Frequently Asked Questions...

When a water test is required, what elements must be addressed?
Rural Development does not identify specific elements that must be tested for.

HB-1-3555, Chapter 12 – Water and Wastewater Disposal Systems – The water quality of the well must meet the requirements of the state or local authority. If the state of local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply.
A recent appraisal and inspection for a new construction shows that the attic space was inaccessible during the initial inspection. Can the appraisal be submitted with the loan request without the attic photos and conditioned to be completed prior to closing on the conditional commitment?
Yes. Since the Agency only issues one conditional commitment, the commitment may be issued “subject to”.

**HB-1-3555, Chapter 12 – Appraisals**— Fannie Mae Form 1004D/Freddie Mac Form 442, “Appraisal Update and/or Completion Report” may be utilized be the lender to report the completion of a repair and/or satisfaction of requirements and conditions noted in the original appraisal report.

This is the case for any other new construction requirements prior to the issuance of the Loan Note Guarantee.
Frequently Asked Questions…

May an appraisal be transferred between approved lenders?
Yes. Appraisals may be transferred between approved lenders for the same applicant for purchase transactions only.

**HB-1-3555, Chapter 12 – Appraisals**— An appraisal ordered by another lender for the applicant can be transferred to the lender who will complete the purchase transaction. The initial lender must agree to the transfer of the report. A letter from the initial lender who ordered the appraisal report must be retained in the permanent loan file as evidence the lender transferred the report to the lender completing the purchase transaction. The receiving lender must assume full responsibility for the integrity, accuracy and thoroughness of the appraisal report, including the methods that the original lender used to acquire the appraisal.
I have a property with a public water source for the home, but also has a well on the property that is only used for watering the lawn. Does that well need to be inspected?
HB-1-3555, Chapter 12 – Water and Wastewater Disposal Systems – The site must have acceptable water and wastewater disposal systems to ensure the property is decent, safe, sanitary and meets community standards. Public water and wastewater disposal systems are presumed to meet state and local requirements with no additional documentation or inspections.

The additional well, when it is not the primary source of water, does not require an inspection.

No. If the site has public water, it is assumed to meet state and local requirements with no additional documentation or inspections.
Important Program Updates
HB-1-3555, Chapter 11 Updates

Updated HB-1-3555, Chapter 11, Ratio Analysis

The Single Family Housing Guaranteed Loan Program (SFHGLP) is pleased to announce revisions to technical HB-1-3555, Chapter 11, Ratio Analysis. An advance copy of the proposed changes was made available on July 20, 2021. These changes became effective upon the recent issuance of a Procedure Notice (PN). Below are the highlighted revisions:

Chapter 11- Ratio Analysis

11.2 The Total Debt Ratio:

- Student Loans: Removed the phrase "the greater of" from Non-Fixed payment loans and added guidance regarding "when the payment is above zero" and "when the payment is zero".

- Revolving accounts: "With no outstanding balance" are not required to be closed.

- Mortgages: Rental Property - Eliminated language regarding omission of mortgage debt. Guidance for entry of rental income in GUS is provided in the GUS Lender User Guide under Section 4.1.4.1.1, Retained Investment Properties.

- Added: Debt management plans:
  - Include the monthly payment amount due from the counseling plan.
  - Refer to Chapter 10 for guidance on credit exception and documentation requirements.
Updated HB-1-3555, Chapter 11, Ratio Analysis

11.3 DEBT RATIO WAIVERS AND COMPENSATING FACTORS

A. Purchase Transactions: Debt Ratio Waivers

- GUS Refer, Refer with Caution, and manually underwritten loans without GUS assistance:
  - Added: "The lender must document eligible compensating factors to support a debt ratio waiver."
  - Added: "all" of the following conditions are met to the first paragraph.
  - Debt Ratio Waiver Request and Agency Approval:
    - Added: "The issuance of the Conditional Commitment for a Loan Note Guarantee represents Agency approval of the ratio waiver."

B. Refinance Transactions: Debt Ratio Waivers

- Added a bullet: GUS files that receive a GUS recommendation of Refer, Refer with Caution, or are not supported by GUS, require debt ratio waivers, and supporting documentation must be submitted to the Agency.
- Added: "The issuance of the Conditional Commitment for a Loan Note Guarantee represents Agency approval of the ratio waiver."
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Lender Toolkit
**HB-1-3555 SFH Guaranteed Loan Program Technical Handbook**

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[https://rd.usda.gov/resources/directives/handbooks](https://rd.usda.gov/resources/directives/handbooks)
Great for new employees and those needing a little refresher!

[Website Link]

Have a question on POLICY?
Contact the PAC team!

Need TRAINING?
Contact the LPA team!

Have a question on a SPECIFIC FILE?
Contact the OPD!
Thank you all for taking the time to attend our training today!

We hope you found it to be beneficial and will provide assistance with the processing of your USDA Single Family Housing Guaranteed Loans!