



May 21, 2021

Rural Development

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TO: State Directors
Rural Development

ATTN: Program Directors
Single Family Housing

FROM: Chad Parker /s/ *Chad Parker*
Acting Administrator
Rural Housing Service

SUBJECT: Single Family Housing Section 504 Repair Pilot

PURPOSE:

This Unnumbered Letter (UL) extends the subject pilot, which has been in place since May 23, 2019, while some of the corresponding regulatory changes are pursued. The associated proposed rule ([84 FR 64788](#)) was published on November 25, 2019; and the final rule should be published this fiscal year.

BACKGROUND:

The pilot, which waives various regulatory requirements as described in this UL, has created additional opportunities and improved ease of use for very-low income homeowners seeking to repair their homes.

IMPLEMENTATION RESPONSIBILITIES:

The pilot states are California, Hawaii, Illinois, Indiana, Iowa, Kentucky, Maine, Michigan, Mississippi, New Jersey, New Mexico, New York, North Carolina, Ohio (added with this UL), Oregon, Pennsylvania, Puerto Rico, South Carolina, Texas, Tennessee, Virginia, Washington, and West Virginia.

Pilot applicants are not subject to the site requirement outlined in 7 CFR § 3550.105(b) which states that the site must not be large enough to be subdivided into more than one site under existing zoning ordinances. While pilot applicants can have subdividable sites, their homes must meet the other property standards (e.g. be within the applicable area loan limit, must not be used for agricultural or income producing purposes, and be modest for the area).

EXPIRATION DATE:
May 31, 2022

FILING INSTRUCTIONS:
Housing Programs

Pilot applicants are not subject to the same threshold outlined in 7 CFR § 3550.108(b)(1) which requires title clearance/insurance and a closing agent for loans where the total RHS indebtedness is \$7,500 or more. For pilot applicants, loans where the total RHS indebtedness is more than \$25,000 need title clearance/insurance and a closing agent.

Pilot applicants must still sign a security instrument when the total Section 504 loan indebtedness is \$7,500 or more. If a closing agent is not required, Rural Development staff will ensure the pilot applicant has ownership interest in the property that meets 7 CFR § 3550.107(a) through (f) (alternate forms of ownership as outlined in (g) are not suitable), close the loan, and ensure that the security instrument is recorded.

Loans under the pilot 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.

Pilot loans are 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.

Pilot applicants are not subject to the same threshold outlined in 7 CFR § 3550.111 which requires an appraisal when the Section 504 debt to be secured exceeds \$15,000 or whenever the Agency determines that an appraisal is necessary to establish the adequacy of the security. A “subject to repairs” appraisal and 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 (RD or non-RD) indebtedness including the proposed repair loan, exceeds \$25,000.

Pilot applicants are not subject to the same loan and grant limits outlined 7 CFR § 3550.112(a) and (c) respectively. 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.

If an existing borrower in a pilot state qualifies for a subsequent loan or grant, the pilot conditions can apply to the subsequent request as appropriate.

Non-pilot states are encouraged to request case-by-case administrative waivers (if justified) that mimic the allowances in the pilot.

For questions pertaining to this UL, please contact Anthony Williams, Management and Program Analyst, at anthonyl.williams@usda.gov or phone (202) 720-9649.