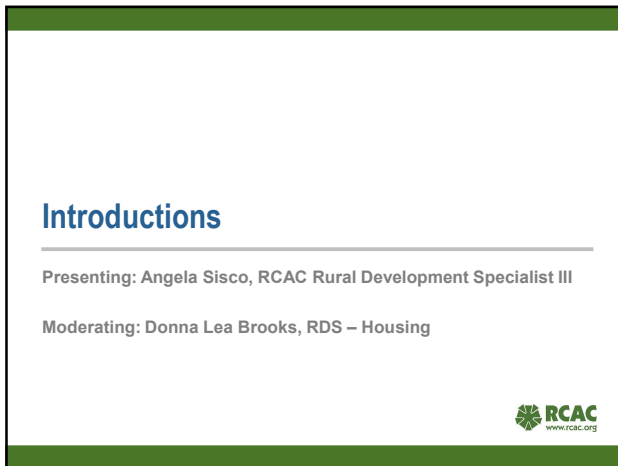
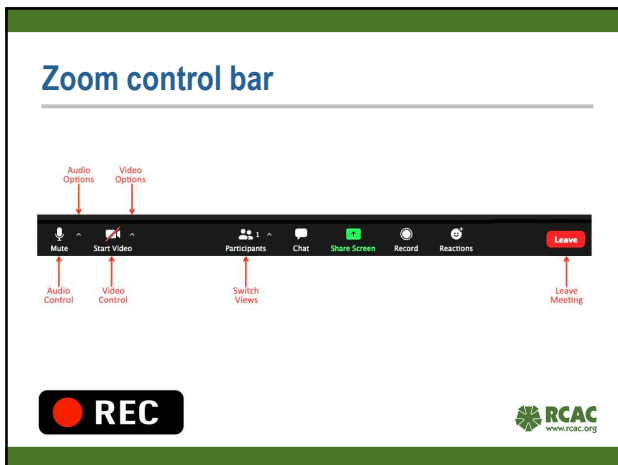




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3

Webinar Etiquette

- ✓ Be present and engaged
- ✓ Use chat for questions
- ✓ Have fun learning and sharing!



4

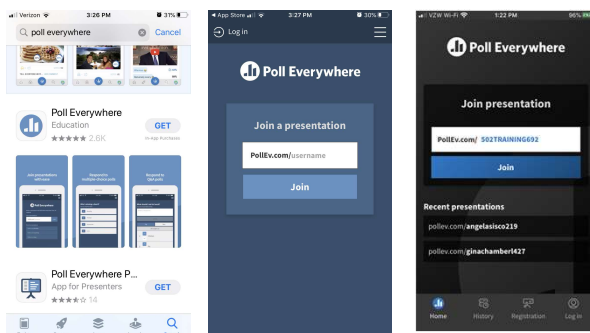
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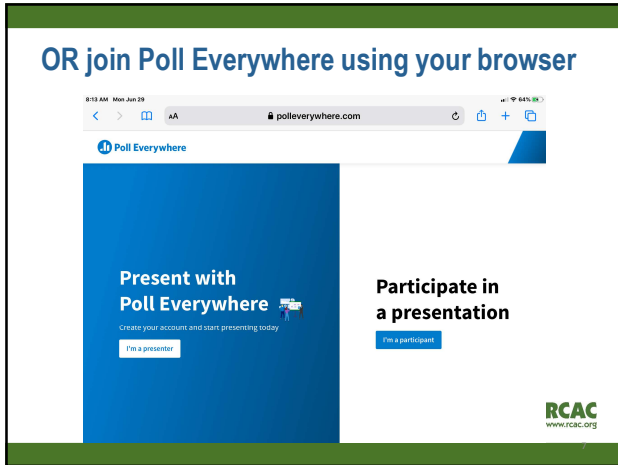


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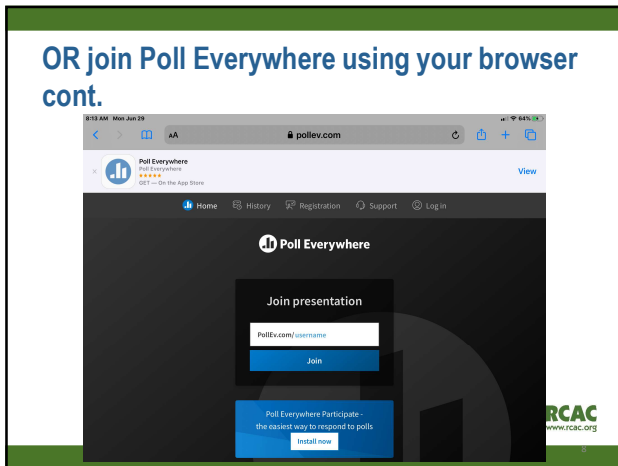
Join Poll Everywhere using the App



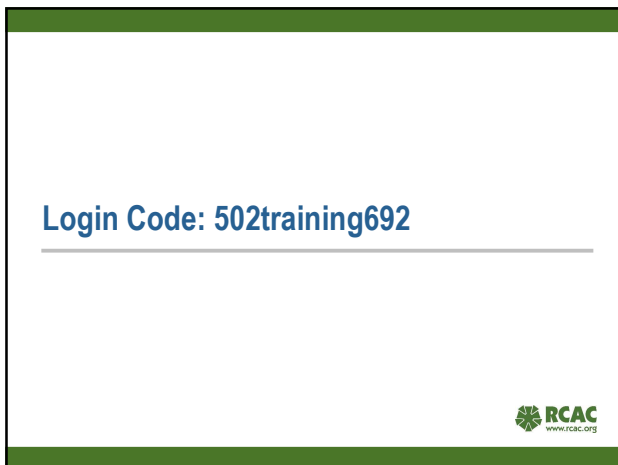
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8



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Poll Everywhere question

Grab your Poll Everywhere enabled device



10

Application Submission



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Rural Development's Roles

- Eligibility
- Underwriting
- Closings
- Conversions



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Rural Development 502 Review

- RD Applicant Eligibility Determination → Certificate of Eligibility (COE)
- RD Property Review → Underwriting
- RD Underwriting → Funding Commitment and Schedule Closing
- Construction Completion/Certificate of Occupancy → Loan Conversion



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Steps for the Packager

- Updated income for eligibility and loan closing, if necessary
- Assist with the loan closing with the title company/closing attorney
- Updated income verifications for conversion
- Conversion



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Packaging



Submit the Applicant
Information



18

Assembling the Package – Phase I

Compiling the loan application package

- Complete Attachment 3-J
- The Calculator (Worksheet for Computing Income & Max Loan Calculator)
- Signed copy of the required (applicant) disclosure letter in Attachment 3-A
- Loan narrative



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Assembling the Package – Phase I, continued

- Credit report and preliminary credit analysis (Loan Narrative) and supporting documents.
- Form RD 1944-60, Landlord's Verification, if score is not valid or less than the threshold.
- Applicant(s) explanation of derogatory credit.



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Submission Documents

Before including information in the file ask:

- What purpose will this serve?
- Can Rural Development use the information to make an eligibility determination?



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Submission Documents

Do NOT include:

- Copy of birth/marriage certificates
- Personal information regarding the applicant that does not pertain to the eligibility criteria
- Statements of personal opinion regarding the applicants, that do not pertain to eligibility criteria



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Uniform Residential Loan Application - RD 410-4

- Are all pages complete?
- Have all declarations been checked?
- Are all household members listed?
- Have both signature pages been signed?



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Items to Double Check

- Are all documents current?
(e.g. verifications typically valid 120 days or 180 for construction/permanent)
- Pay stubs/ bank statements consecutive?
- Are explanations of credit issues, gaps in work history, etc., provided by the applicant in the file?



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Loan Narrative

- Be Concise
- Reference your fully completed and attached Income/Payment Assistance Calculator with income calculations (restate only important comments which are included in comments section of calculator)
- Requested RD loan amount and all other funds in the project (loans, grants, gift funds, etc.) and include commitment letters
- Document and request warranted exception(s)



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Loan Narrative, cont.

- Briefly explain credit review - score, indicators of unacceptable credit and if alternative credit was used
- Explain any Payment Shock
- Explain any requests for Compensating Factors
- Explain any Risk Layering
- Avoid personal statements (i.e. "such a nice couple") or information unrelated to eligibility
- Make a recommendation, sign and date



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The Eligibility Review



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Eligibility Determination

- After the application package is submitted, Rural Development will:
 - Review docs for accuracy and completeness
 - Order Tri-Merge credit report
 - Check Do Not Pay (DNP)
 - Check SAVE for qualified alien status
 - Determine Final Eligibility



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Eligibility Determination: When and applicant is determined eligible

- Certificate of Eligibility (COE) issued (with a copy to the packager/grantee), triggering the grantee to compile and submit property documents
 - Self-Help applicants receive Letter 16 version of COE
- Applicant views Applicant Orientation Guide video prior to loan approval
<https://www.rd.usda.gov/programs-services/single-family-housing-direct-home-loans>



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Eligibility Determination: When an applicant is NOT Eligible

- Loan approval official sends the applicant(s) an adverse decision letter (with a copy to the packager)
- Letter contains applicable appeal/review/mediation rights specifying the denial reason(s)



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Certificate of Eligibility (COE) Handbook Letter 16 for Self-Help

HB-1-350
Handbook Letter 16 (3550)

REFERENCE: Field Office Handbook Chapter 4
SUBJECT: Eligibility of Self-Help Applicants

Date: [insert today's date]

[insert applicant(s) first/initial last name(s) (Mr., Mrs., Ms.)]
[insert applicant(s) street/post office address]
[insert city, state, and zip code]


Dear [insert applicant last name(s) (Mr., Mrs., Ms.)]:

You have been determined eligible for Rural Development financing for construction of a modest single family home under the Self-Help program. Eligibility is based on income and financial information that is verified within 180 days of loan approval and closing. Loan approval and closing are subject to the continued eligibility of the applicant and the availability of loan funds. Changes in your financial status (income and expenses) must be reported to Rural Development, and may affect your eligibility and the amount of loan for which you qualify. Rural Development has determined that you qualify for a Self-

RCAC
www.rcac.org

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Packaging



Submit the Property Information

RCAC
www.rcac.org

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When Property Info Received

RD will:

- Issue the Loan Estimate
- Order the flood hazard determination and complete an environmental analysis on the property, which likely was completed earlier in the process
- Review/accept plans/specs or repair proposals
- As applicable, order an appraisal, review/accept the appraisal upon receipt
- Determine property eligibility

RCAC
www.rcac.org

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Appraisals

- RD orders the appraisal. (current fee \$750 typically included in loan)
- Loan docket contains the items needed for the appraisal.
- **Existing housing** - Purchase Contract, and list of RD required repairs.
- **New construction** – Lot Purchase contract, house plans and specifications, plot plan and Form RD 1924-25 “Plan Certification.”



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Temporary Authorization on appraisals

SUBJECT: Temporary Authorization to Accept Authorized
Third-Party Appraisals
Single Family Housing Direct Programs

PURPOSE:

This memorandum provides temporary authorization to accept appraisals obtained by self-help grantees, certified loan application packagers, Agency-approved intermediaries, and leveraged or other participating lenders. This temporary authorization is needed given the record-high market demand for purchase appraisals and the timeliness issue this demand can cause.

This temporary authorization is effective as of the date of this memorandum and expires on September 30, 2023.



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Poll Everywhere question

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Underwriting



Person



Property



Agency Risk



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Once Property Info is Reviewed

RD will complete loan underwriting:

- If applicant and property are eligible
 - Loan is approved and loan funds are obligated
 - Form RD 3550-7, Funding Commitment and Notification of Loan Closing, issued to the applicant with cc: to grantee packager
 - Agency prepares for loan closing
- If applicant is no longer eligible – application is denied and applicant provided with appeal/mediation rights



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Key Underwriting Decisions

- Does the potential applicant meet program requirements?
- Does the property meet program requirements?
- Does the “deal” work?

While the packager does not perform underwriting, it is important to understand the process.



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Escrow Accounts

- Rural Development requires the escrow of taxes and insurance for loans over \$15,000
- First year insurance paid in full (builder's risk/homeowners)
- Declarations state RD as lien holder and amount
- One time Tax Service Fee charged (amount established annually)
- Escrow accounts are reviewed and adjusted annually



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Poll Everywhere question

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Loan Closing

- If the grantee is the seller of the lot, you will need to coordinate with Title Company and RD as the lender for timing and documents
- Grantee will work with RD to schedule RD Orientation meeting and complete pre-construction/pre-closing meeting
- Grantee will need to coordinate signing if the seller of the property



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Conversion

- Approx. 30 days prior to when house will be complete – request updated income information, insurance, etc. (to calculate income and amount of payment assistance)
- Applicant is given 15 days to provide
- If they don't provide, loan is converted at full note rate payments.



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Conversion cont.

- Payment Assistance Agreement is signed at Conversion and is based on current household income
- Promissory note will be updated with interest accrued and applicants requested to initial new amount
- Remember do not sign USDA Form RD 1924-19, Builder's Warranty. This is for contractor-built homes, not self-help



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Conversion

A (construction) loan is converted to a permanent loan when:

- The home is completed to the plans and specs and description of materials
- The Certificate of Occupancy is issued
- Following the Rural Development final inspection, if the local office chooses to do one
- All funds are distributed to cover costs incurred
- The grantee has approved the participants to move in (this can be given prior to conversion)
- Subcontractors have signed waiver of release of liens (grantee could hold back funds – check contract)



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Funds Remaining at Conversion

- Grantee responsibility for funds and construction ends at conversion
- If funds remain and owner wants to use those for improvements, these need to be coordinated with RD
- Grantee should avoid assisting in coordination of work after conversion using excess funds
- Many grantees put in their group agreement that any remaining funds will be put towards the loan to avoid problems after the homes are complete.



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Poll Everywhere question

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Post Closing – Servicing Issues



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Customer Service Center (CSC)

After final disbursements-CSC handles:

- Payments from borrower
- Escrow accounts for Taxes & Insurance
- Counsels past-due borrowers
- Liquidates borrower accounts as needed
- Workout agreements, payment plans
- Moratoriums – temporary financial difficulties
- Payment subsidy renewals



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Subsidy Recapture



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BACKGROUND

- The 502 Direct Program states that subsidy received in accordance with a 502 loan is repayable to the government upon the disposition or non-occupancy of the security property. This includes deferred mortgage payments.
- Each borrower must sign Form RD 3550-12 "Subsidy Repayment Agreement" promising to repay some portion of subsidy received.



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Subsidy Recapture Fact Sheet



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Calculating Subsidy Recapture

Points to remember:

- The family's original equity plus a return on that equity is always protected from recapture.
- If the house has no value appreciation, the family pays no subsidy recapture.
- The highest recapture level is 50% (see Section 5) That means the most a family will ever repay is 50% of the appreciation of the home (or the total subsidy granted, whichever is less).



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Recapture Estimates

- Borrowers can obtain an estimated payoff (including recapture) by calling the Customer Service Center (CSC) at 800-414-1226.
 - This is an automated system.
 - Choose the "estimated payoff including recapture" option. Be ready to provide the following information:
 - Estimated closing costs
 - Estimated Market value
 - Value of any capital improvements.



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Recapture Formula RD Form 3550-12

Recapitulating formula:

Current Market value

LESS

Original amount of prior liens and subordinate affordable housing products,
RHS balance,
Reasonable closing costs,
Principal reduction at note rate,
Original equity (see paragraph 3), and
Capital improvements (see 7 CFR part 3550).

EQUALS

Appreciation value. (If this is a positive value, continue.)

TIMES

Percentage in paragraph 4 (if applicable),
Percentage in paragraph 5, and
Return on borrower's original equity (100% - percentage in paragraph 3).

EQUALS

Value appreciation subject to recapture. Recapture due equals the lesser of this figure or
the amount of subsidy received.



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Recapture CONCEPT

Market Value : \$200,000
Prior Liens: - \$ 30,000
Loan Balance : - \$150,000
Closing Costs: - \$ 6,000
Original Equity - \$ 4,000
Principal Reduction: \$ 0
Apprec. Value \$ 10,000

Appreciation value times Percentage
from chart below (assuming worst case
scenario)

$$\$10,000 \times .50 = \$5,000$$

In this example, and using these
figures, the borrower would repay
\$5,000 in subsidy granted because it is
the lesser of 50% of the value
appreciation, or the total subsidy
granted.

Original Loan Amount \$160,000
Total Subsidy Granted: 20,000

months loan outstanding	1.1	2.1	3.1	4.1	5.1	6.1	7%	8%
0 - 59	.50	.50	.50	.48	.45	.42	.35	.31
60 - 119	.50	.50	.50	.49	.46	.43	.36	.32
120 - 179	.50	.50	.50	.49	.47	.44	.37	.33
180 - 239	.50	.50	.49	.47	.46	.43	.38	.34
240 - 299	.50	.50	.48	.46	.45	.42	.39	.35
300 & up	.47	.46	.45	.43	.42	.40	.38	.36



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Poll Everywhere question

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SELF-HELP 502 GUIDEBOOK

PROVIDED BY REGIONAL T&MA
CONTRACTORS
SECTION 523 MUTUAL SELF-HELP



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Evaluation Survey

- You will receive an evaluation that pops up after you log out and by email, please complete this to let us know what we did right and where we can improve.
- Add to the Word Cloud on the next slide of one or two words of evaluation this training.



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Questions?



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