



**ICAP**

**Update Seminar**

**June 12, 2015**

**Collinsville, IL**

**Presented by:**

**Barry Ramsey, Housing Director**

**Nicki Morgan, Guaranteed Coordinator**

# Agenda

- Overview of USDA Residential Programs
  - Direct Loans (7 CFR 3550)
  - Guaranteed Loans (7 CFR 3555)
- Common Findings on QC Reviews
- Changes in USDA Regulations
- Becoming a USDA Contract Appraiser
  - Residential Roster &
  - Blanket Purchase Agreement
- Affordable Multifamily Appraisals
  - Use Restrictions / Favorable Financing



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# Direct Single-Family Housing



# Previously rural areas up to 35,000

Property and Income Eligibility maps (same for ALL USDA Housing)

- <http://eligibility.sc.egov.usda.gov/eligibility/>

## Illinois Website

- <http://www.rd.usda.gov/il>

4 Areas, 11 offices

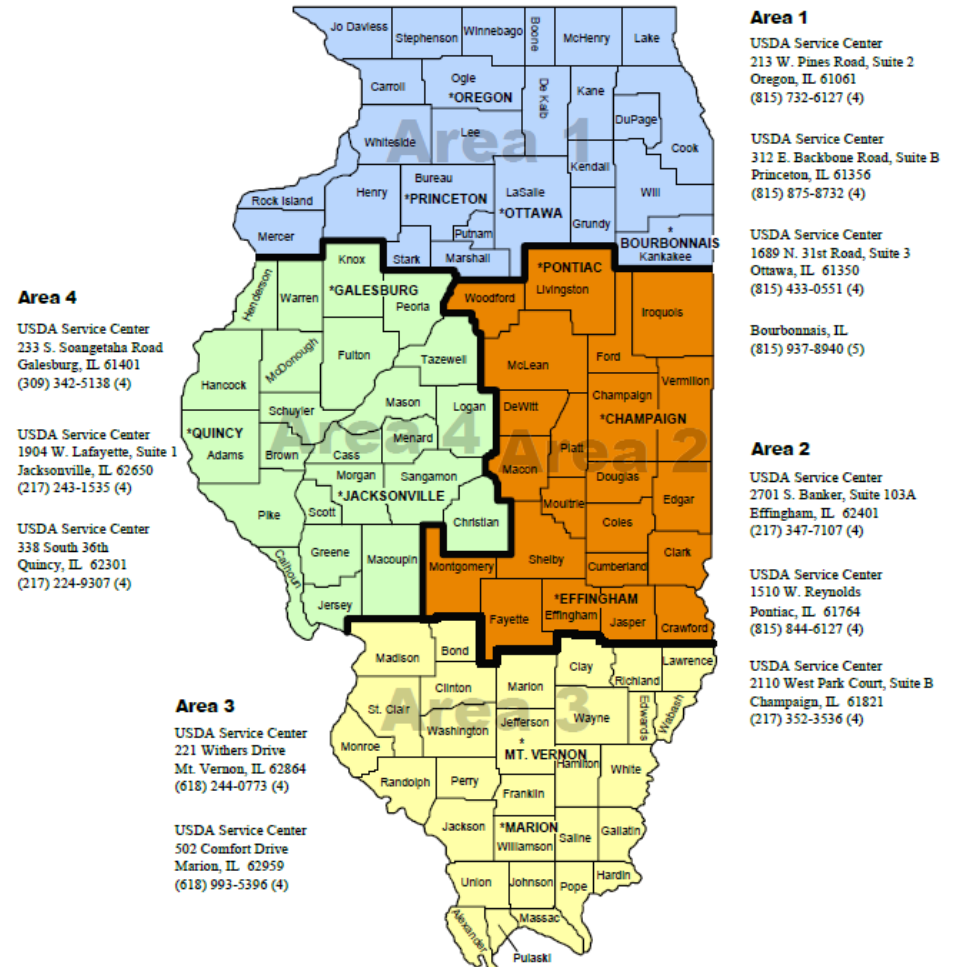
## IL Locations

- Oregon, Princeton, Ottawa
- Quincy, Galesburg, Pontiac,
- Champaign, Jacksonville
- Effingham, Mt Vernon, &
- Marion

No AMC's



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# Property Eligibility (Direct)

- Existing Homes
  - Requires an IL licensed whole house inspection, documenting good condition or improved w/loan proceeds
  - Available escrow for post-closing repairs
  - No limitation on seller repairs or concessions
  - Private water / septic require separate 3<sup>rd</sup> party inspections
- New Construction
  - Certified plans & specs
  - Inspections throughout construction
  - 1 year builders warranty
  - Building permit and Certificate of Occupancy accepted for communities with code compliance and inspection in lieu of certified plans & specs
- New and existing modular homes are eligible
- Townhomes (attached and detached) are eligible



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# Property Eligibility (Direct)

- Existing Condominium Units must have evidence they were approved by Fannie, Freddie, HUD or VA.
  - 70%+ of the units must have been sold
- **Manufactured Homes:**
  - New Units:
    - Purchase Agreement must be dated within one year of the date displayed on the manufacture date of the unit.
    - Built by an approved dealer-contractor
  - Existing Units:
    - Must have been financed new with a USDA direct or GRH loan.
    - Original owner must be the seller
- **Modest size & cost (or a special needs exception)**
  - Up to 1,800 square feet living area (above grade)
  - Published county cost limit\* (\$141,000 - \$200,000)
    - \*\$170,000 in Bond/Clinton/Madison/Monroe/St. Clair/Washington



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# Property Eligibility (Direct)

- Primary residences only:
  - No Rental Properties
  - No Second Homes
  - No Investment Properties
  - Only one unit of a Duplex to the same applicant
  - No Income Producing land or commercial buildings
  - No In ground Swimming Pools (**direct lending only**)
- Valuation of Site and Outbuildings Required
  - Minimal sites, unable to subdivide into two parcels
  - Small home based operations are permitted (beauty shop, child care, craft sales, etc.)



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# Valuation (Direct)

- Proposed Construction
  - Subject to completion per plans & specs
- Existing Dwelling
  - As-Is, or
  - Subject to Repairs
- Uniform Appraisal Dataset (UAD)
- 1004MC (mandatory)
- Site value (mandatory)
- 1004D Completion Report (if included in the report assignment and quoted fee)



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# Valuation (Direct)

- Cost Approach is required if:
  - Actual age is 50 years or less (built in 1965 or later)
- Either Reproduction or Replacement Cost New:
  - Cite source / date of cost data utilized
- Estimated Remaining Economic Life / Useful Life
  - Total Life – Effective Age = RUL
  - Depreciation (Physical, Functional, External) should support the final reconciliation of market value
- HUD Handbook requirements do not apply to this program (**direct lending only**)



# Guaranteed Single-Family Housing



# Eligible Rural Areas

Property and Income Eligibility maps (same for ALL USDA Housing)

- <http://eligibility.sc.egov.usda.gov/eligibility/>

Illinois GRH Website

- <http://www.rd.usda.gov/programs-services/single-family-housing-guaranteed-loan-program/il>



The screenshot shows the USDA Rural Development website. The header includes the USDA logo, "United States Department of Agriculture Rural Development", and navigation links like "About USDA", "Ask The Expert", "Help", and "En Español". A search bar is also present. The main navigation menu includes "Home", "About RD", "Programs & Services", "Browse by State", "Newsroom", "Publications", and "Contact Us". The current page is titled "Single Family Housing Guaranteed Loan Program in Illinois". A sidebar on the left lists "Programs & Services" with sub-links: "Overview", "All Programs", "For Businesses", "For Communities & Nonprofits", "For Cooperatives", "For Individuals", "For Lenders", and "Services". The main content area features a "Print" button and a dropdown menu set to "Illinois". A prominent announcement states: "We are processing complete files received on June 10, 2015." Below this, there is a "Printable Version" link and a "Program Status: Open" indicator. A section titled "What does this program do?" explains that the program assists approved lenders in providing low- and moderate-income households the opportunity to own adequate, modest, decent, safe and sanitary dwellings as their primary residence in eligible rural areas. It also mentions that the program provides a 90% loan note guarantee to approved lenders to reduce the risk of extending 100% loans to eligible rural homebuyers. On the right side, there is a box for "Illinois Program Contact" with a link to "View All State Program Contacts >".



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# Eligible Loan Purposes (Guaranteed)

- Unsubsidized fixed interest rates
- 30 Year Term and Amortization
- No Downpayment, Loans up to 100% of Appraised Value plus GRH Fee
- Construction or purchase of a new home.
  - Stick built
  - Modular
  - Manufactured
- Cost of acquisition of an existing home.
  - Stick built
  - Modular
  - Manufactured (if already an Agency loan & not moved or added on to)
- Cost of repairs associated with an existing home.
- Acquisition and relocation of an existing home.
- Leasehold estates, condos, duplexes.
- Arms length and non-arms length transactions are acceptable. Non-arms length transactions must be identified and documented on the appraisal.



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# Manufactured Homes (Guaranteed)

- Mortgage must cover the unit and site:
  - Site development work.
  - Purchase of new unit, set up costs, site. Unit must be less than 12 months old and never occupied. Date of purchase agreement must be within one year of the manufacture date displayed on the plate attached to the unit.
- Permanent foundation must meet FHA guidelines in effect at the time of certification (HUD-4903.3G).
- Certification the foundation meets HUD handbook 4903.3 from a licensed engineer or registered architect in the state where the home is located, and contain signature/seal and or state license or certification number.
- Unit must be classified and taxed as real estate (IL Mobile Home Privilege Tax properties are ineligible)



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## Income Producing Property (Guaranteed)

- Buildings that will be used principally for income producing purposes are ineligible.
- No farms, no vacant land or properties used for agricultural, farming, commercial enterprises.
  - Minimal income activities (gardening) does not make a property ineligible.
- Property must be residential in use, character and appearance.



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# Income Producing Property (Guaranteed)

- Is the property a single family home or a commercial enterprise?
  - Barns used for storage, outbuildings such as sheds are permitted, but no intentional use for income is allowed.
  - Minimal income producing activity, such as gardening that generates a small amount of income, is not in violation.
  - Home-based operations such as childcare, product sales, or craft production that do not require specific features are not restricted.



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# Appraisals (Guaranteed)

- Utilize correct form for the type of property (interior/exterior):
  - URAR 1004/70
  - Manufactured 1004C/70B
  - Condo 1073/465
  - Completion Report 1004D/442
- Exterior-Only reports are not acceptable for lending purposes
- Meet UAD.
- Include Market Conditions Addendum (Fannie 1004MC).
- All appraisals must be submitted with color photographs in order to avoid any delays in loan processing due to illegible photos.
- No less than three comparable sales.
  - Comparable properties should have sold within the last 12 months.
  - Berm homes, log homes, Morton Building homes and other unique subject property types must have similarly unique comparables.
  - The sales price of the subject property must be bracketed, if possible given comparables in the area.



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# Appraisals (Guaranteed)

- Cannot be more than 120 days old at loan closing + 30 day extension.
  - Appraisal Update – No more than 240 days old at loan closing.
- The sales comparison approach is required.
- Cost approach is no longer required to be completed for existing dwellings (guaranteed lending)
- Remaining economic life of a property must meet or exceed the loan term for the Agency to issue a guarantee (30 years).



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# Well Water (Guaranteed)

- Individual Privately Owned Water Systems
- Private Water
  - Prefer not to see water purification systems, however the purification system is acceptable if it meets the requirements of the state health department.
  - Connection must be made to a public water system if connection costs are reasonable.
    - What is reasonable?
      - 3% or less of the estimated value of the property. If connection costs exceed 3%, the existing on-site systems will be acceptable provided they are functioning properly and meet the requirements of the local health department.



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# Well Water

Individual Privately Owned Water Systems

- **Water Quality Tests are required as follows:**
  - Requirements of state/local authority must be met, or EPA maximum contaminant levels.
  - Local health authority or state certified lab must perform the water quality analysis. Safe Water Drinking Act does not apply to private wells.
  - Well location must be measured to establish distance from septic system. Distances must meet most aggressive approach of local/and or State Health Authority codes or HUD handbook 4150.2.
  - Individual water system should be located on subject property. If on adjacent property: evidence of water rights and recorded maintenance agreement must be retained in the lenders file.
  - Cisterns are not acceptable.



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# Well Water

Individual Privately Owned Shared Water

- Lender must ensure continuous supply of safe/potable water.
- Well serves properties that cannot feasibly be connected to an acceptable public or community water supply: lender determines.
- Shared well must have a valve on each home.
- Supply must meet all families served. No more than 4 living units or properties served.
- Well must have an agreement that meets:
  - Binding upon all signatory parties and successors in title
  - Is recorded or will be recorded no later than closing date.
  - Includes provisions for maintenance and repair of the system and sharing of costs to do so, including permanent easement that allows access for maintenance and repair.



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# Septic (Guaranteed)

- Individual Privately Owned Wastewater
  - Connection must be made to a public water system if connection costs are reasonable.
    - What is reasonable?
      - 3% or less of the estimated value of the property. If connection costs exceed 3%, the existing on-site systems will be acceptable provided they are functioning properly and meet the requirements of the local health department.
  - Lender is required to obtain a septic evaluation.
  - HUD Roster appraiser, government health authority, licensed septic system professional or qualified home inspector may perform evaluation.



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# Septic (Guaranteed)

- Individual Privately Owned Wastewater
  - Separation distances should comply with HUD distances between a well and septic tank, and property line should comply with HUD guidelines or state well codes.
  - Septic must be free of observable evidence of failure.
  - Existing homes appraised by a HUD roster appraiser that has indicated the home meets requirements of HUD handbooks does not require further septic certification.



# HUD Handbooks

## DOES NOT REPLACE A WHOLE-HOME INSPECTION!

- Existing homes
  - HUD Handbook certification may be made on page 3 or addendum.
    - Up to the appraiser or approved lender if an underground fuel oil tank that is no longer the main heat source for the home needs to be removed or can remain.
    - Up to the appraiser or approved lender if peeling paint must be scraped and repainted.
    - Gutters, downspouts and extensions required on all homes to ensure positive and rapid drainage away from the foundation.
    - Lenders will be responsible for determining whether any, repairs will be required to meet HUD Handbook standards. Lenders are reminded they are responsible for the acts of their agents, including appraisers.
  - Termite inspections are required at the discretion of lender, appraiser or inspector.
  - No thermal standard inspection required.
  - RD may approve homes with in-ground swimming pools.
  - HUD Handbooks 4150.2 & 4905.1 will be replaced with HUD Handbook 4000.1. When HUD Handbook 4000.1 becomes effective, it will also become effective for purposes of the Guaranteed Rural Housing Loan Program.



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# Escrow (Guaranteed)

- Escrow for Exterior/Interior Development
- LNG may be issued prior to completion of repairs if:
  - Cost of remaining work (exterior or interior) is not greater than 10% of final loan amount.
  - Livability of home is not affected.
  - Signed contract between borrower and contractor; funds to be escrowed are not less than the contract.
  - HUD-1 reflects holdback.
  - Development will be complete within 180 days of loan closing.
  - Escrow account is established in a federally supervised institution.
  - Appraiser must certify, sign and provide photos of completed repairs



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# Escrow (Guaranteed)

- Escrow completion without the assistance of a contractor
  - Requirement of executed contract is waived IF:
    - Estimated cost to complete is less than 10% of the loan amount and escrow amount is less than or equal to \$10,000,
    - Lender has determined borrower has knowledge/skills to complete the work.



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# Eligible Loan Costs (Guaranteed)

1. Purchase and installation of essential household equipment:
  - ✓ Carpeting, oven, range, refrigerator, laundry, heating and cooling, and similar items typical for the area.
2. Purchase and installation of energy saving measures.
3. Site prep: grading, foundation, plantings, seed/sod, trees, walks, fences and driveways.
4. Special design features or equipment due to a physical disability of applicant/household member.



# Eligible Loan Costs (Guaranteed)

- Amount of up-front guarantee fee.
- Cost to establish a cushion in the mortgage escrow account for the annual fee not to exceed 2 months.
- Prorated portion of real estate taxes due and payable on the property at loan closing, establish escrow accounts for real estate taxes, hazard/flood insurance premiums and related costs.
- Energy Efficiency Measures
  - Purchase and installation such as insulation, double-paned glass, and solar panels.
- Broadband
  - Installation of fixed broadband service, equipment must convey with the home.



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# Eligible Loan Costs



- Reasonable Lender Fees
  - Lender fees and closing costs may not exceed 3% of the total loan amount.
  - SFHGLP up-front guarantee fee and annual fee are excluded from the 3% calculation.
- Closing Costs
  - 6% limit on seller contributions.
  - Seller contributions must be for eligible loan purposes
    - Example: Can't pay VISA bill or student loans.



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# Quality Control Process



# QC Process

- 100% Administrative Review by Loan Officers for:
  - Inconsistencies likely to affect value conclusions
  - Documentation
  - Math Errors
  - Color Photos
- Technical Review for USPAP compliance by an Agency Review Appraiser when:
  - Administrative Review is flagged
  - Randomly selected (5% checked)



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# QC Most Common Concerns

- Cost Approach missing (**direct lending if actual age 50 yrs or less**)
- Cost and Sales Comparison approaches differ significantly
- Effective Age, REL and depreciation inconsistent with cited source
- Missing “Scope of Work” per 2-2(a)(vii)
- Missing “Highest & Best Use” per 2-2(a)(x)
- Missing adjustments for condition or quality
- Missing photos or only MLS photos
- Comps more than 12 months prior to the report
- Comps not bracketed without an explanation
- Style differences between subject / comps
- As-is Market value significantly higher than arms-length listing price without an explanation



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# USDA Regulation & Policy “Change”

- Agency review appraisers were regionalized in October 2014
- Random spot checks by review appraisers increased from 2% to 5% of all reports
- Duties primarily reviewing residential and commercial reports, with very few direct appraisal assignments
- 7 CFR 3555 replaced 1980-D for guaranteed lending in December 2014
  - Cost approach was required until 3/11/2015 for guaranteed lending, now discontinued
  - Cost approach remains a direct lending requirement unless the dwelling age is >50 years



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# Interested in another client?

## Contract as a USDA Appraiser!

- Guaranteed lending utilizes appraisals obtained through participating lenders or their AMC;
- Direct lending utilizes appraisals obtained by USDA for new loans and loan servicing. To be added:
  - Pick up a cover letter and user guide packet today
  - No cost registration for your business in SAM (System for Award Management) is required at [www.sam.gov](http://www.sam.gov)
- Certified Residential (556) or Certified General (553) with an active Illinois License is required – Associate R/E Trainee Appraisers (557) are not eligible



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# USDA does not utilize AMC's

- FHA roster status is optional and independent of USDA's roster
- Assignments are rotated by the RD Area office for the counties you are able to serve
- Fee quotes are negotiated per assignment (not fixed) and paid within 30 days of invoice / work acceptance
- The first assignment is automatically reviewed by USDA staff appraiser and a random 5% spot check after that
- Complete the SAM registration and contact Caryl Strader email [caryl.strader@il.usda.gov](mailto:caryl.strader@il.usda.gov) phone (217)403-6206 to request a blanket purchase agreement (BPA) so that assignments can begin!



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# Affordable Multifamily Appraisals



# Multifamily Programs (Guaranteed)

- Unsubsidized, fixed interest rates
- Often combined with the IHDA low income housing tax credit program or HUD subsidized rents
- Certified General R/E Appraiser licensed in Illinois
- Sales comparison, cost and income approaches
- Market Value subject to restricted rents, Prospective Market Value subject to restricted rents
- Long term use restrictions required for allowable rents and maximum income at move-in
- Appraisers selected by the participating lender
  - ❖ USDA should be listed as the an intended user
  - ❖ Might involve a second report or appraisal update “as built”
  - ❖ Collaboration between appraiser, USDA and the lender prior to completing the report to fully understand the assignment is very important!



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# Multifamily Programs (Direct)

- Subsidized financing (typically reduced to a 1% effective rate for a 30 year term)
- Often combined with the IHDA low income housing tax credit program or HUD subsidized rents
- Certified General R/E Appraiser licensed in Illinois
- Sales comparison, cost and income approaches
- Market Value subject to restricted rents, Prospective Market Value subject to restricted rents taking into consideration:
  - Any rent limits, rent subsidies, expense abatements, or restrictive-use conditions that will affect the property as a result of an agreement with the Agency or any other financing source and
  - Each type of financing involved, including, but not limited to interest credit subsidy, low-interest loans from all sources, tax-exempt bond financing, and grants which must be valued separately in the appraisal report (see HB-1-3560, Att. 7-H)



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# Multifamily Programs (Direct)

- Market value premised upon a hypothetical condition as if unsubsidized conventional housing
  - Taking into consideration the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.

## **Appraisers selected by the developer for lending and loan prepayment purposes**

- USDA should be listed as an intended user
- Collaboration between appraiser and USDA prior to completing the report to fully understand the assignment is very important!

## **Appraisers selected by USDA for loan servicing and prepayment purposes**

- USDA is listed as the client and intended user



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