


CHAPTER 12: SECTION 504 LOANS AND GRANTS

12.1 INTRODUCTION


The objective of the Section 504 loan/grant program is to help very low-income owner occupants of modest single family homes in rural areas repair those homes. Loan funds are available for repairs to improve or modernize a home, make it safer or more sanitary, or remove health and safety hazards. For homeowners 62 and over who cannot repay a loan, grant funds are available to remove health or safety hazards, or remodel dwellings to make them accessible to household members with disabilities. Attachment 12-A provides a summary of the differences between Section 504 loans and Section 504 grants, and Attachment 12-B provides the differences between Section 502 and Section 504 loans.

 Only those procedures that differ from Section 502 loans are described in this chapter.

Unless otherwise specified in this chapter, Section 504 loan/grant applications should be accepted, evaluated, and closed following the same procedures described for Section 502 loans in Chapters 2 through 10. However, Section 504 loans *cannot* be assumed except on Same Rates and Terms as in Paragraph 2.4 B. In addition, a property survey is not required for a Section 504 loan or grant unless a mortgage or deed of trust is being filed and there is a compelling reason to question the placement of the dwelling on the property; or, in farm acreage cases, where the house site is subdivided from a larger parcel. The cost of a survey can be included in the loan if there is sufficient equity.

12.2 ELIGIBLE PURPOSES FOR 504 FUNDS [7 CFR 3550.102]

Section 504 loan funds may be used to make general repairs to improve or modernize the property, as long as the dwelling remains modest. Loan Originators may approve any of the eligible costs listed in Paragraph 6.4, unless specifically prohibited in this chapter. Section 504 grant funds may be used only for repairs and improvements that will remove health and safety hazards, or to repair or remodel dwellings to make them accessible and useable for household members with disabilities.

 **Hazards and Major Hazards**
A *hazard* is a property condition that jeopardizes the health or safety of the occupants or members of the community, but that does not make it unfit for habitation. A *major hazard* is a condition so severe that it makes the property unfit for habitation.

A. Restrictions on the Use of 504 Funds

Section 504 loan or grant funds cannot be used to:

- Assist in the construction of a new dwelling;
- Make repairs to a dwelling in such poor condition that when the repairs are completed, the dwelling will continue to have major hazards;
- Move a mobile home or manufactured home from one site to another;
- Pay for any off-site improvements except for necessary installation and assessment costs for utilities;
- Refinance any debt or obligation that the applicant incurred before the date of application (except for payment of the installation and assessment costs of utilities);
- Purchase or install equipment in the property (e.g., ranges, refrigerators, washers or dryers);
- Pay packaging fees to for-profit entities;
- Provide site preparation (e.g., grading, foundation plantings, seeding or sodding, trees, walks, yard fences, or driveways to a building site);
- Construction of new decks (existing decks may be repaired if a safety hazard exists);
- Installation of concrete or asphalt driveways; or
- Landscaping.


B. Repairs to Mobile or Manufactured Homes

Section 504 loan and grant funds can be used to repair mobile or manufactured homes if:

- The applicant owns the home and the site and occupied the home prior to filing an application;
- The repairs are needed to remove health or safety hazards; and

Paragraph 12.2 Eligible Purposes for 504 Funds [7 CFR 3550.102]

- The home is on a permanent foundation, or will be put on a permanent foundation with Section 504 funds.

	<p>Permanent Foundation</p> <p>A permanent foundation is either: (1) a full below-grade foundation; or (2) blocks, piers, or some other type foundation with skirting, and anchoring with tie-downs.</p>
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12.3 APPLICATIONS [7 CFR 3550.104]

Applications for Section 504 loan or grant funds are made on the same form as applications for Section 502 loan funds. Applications are generally processed in the same way; however the processing priorities for Section 502 loans do not apply to Section 504 applicants. Section 504 applications for assistance to remove health or safety hazards should receive priority processing, and the veteran’s preference described in Paragraph 3.14 C. should be used in cases where multiple applications to remove health or safety hazards are received on the same day.

For any Section 504 loan or grant, the Loan Originator must visit the property within 30 days of determination of eligibility to identify which repairs are essential. There must be sufficient documentation in the applicant’s case file to justify the existence of health and safety hazards for each repair or to make the dwelling accessible and usable for household members with disabilities to insure that funds are used for eligible purposes. The identified health and safety hazards should be separated from the loan improvements and other sources of partnership funds. Photographs of the property and the items needing repairs should be taken during this visit and at final inspection. The applicant will be provided a detailed set of specifications, which will be utilized to solicit at least 3 bids when feasible. If there are not a sufficient number of contractors in the area, the local office must be sure to review the bids that are obtained to ensure they meet the established specifications.

By submitting applications for a grant, applicants certify that they will not engage in the unlawful manufacture, distribution, dispensing, possession, or use of a controlled substance in conducting any activity with the grant.

12.4 APPLICANT ELIGIBILITY [7 CFR 3550.103]

A. Income

In order to be eligible for a Section 504 loan or grant, the adjusted household income at the time of loan/grant approval and at loan closing must not exceed the applicable very low-income limit. Low-income applicants cannot receive assistance under Section 504.

B. Credit Requirements

The Loan Originator need not evaluate the credit history of grant applicants, except that an applicant who is subject to an outstanding judgment obtained by the United States in a Federal court, other than in the United States Tax Court, is not eligible for a Section 504 grant. Credit reports will not be ordered for 504 grant applicants.

For loans, applicants must have a credit history that indicates a reasonable ability and willingness to meet debt obligations. The indicators of unacceptable credit described in Paragraph 4.11 for Section 502 loans can be used to evaluate the applicant's credit history, however, general credit requirement may be less stringent than those for section 502 loans. Late payments for housing costs should not be considered as an indicator of unacceptable credit.

Regardless of the size of the loan being requested, the Loan Originator should check both the Infile Credit Report and HUD's Credit Alert Interactive Voice Response System (CAIVRS), as described in Paragraph 4.11. Credit reports are required with all applications for loans of \$7,500 or greater, but the cost of the report is not charged to the applicant.

C. Asset Requirements

Asset requirements are identical to those imposed by Section 502, except that only assets that can be converted to cash in 90 days or less are included in the calculation of nonretirement assets. The limitation on nonretirement assets for nonelderly households is \$15,000 and \$20,000 for elderly.

D. Repayment Ability

To qualify for a Section 504 loan, the applicant must have a reliable income source sufficient to allow repayment of the loan. If the applicant lacks the ability to repay the entire amount through a loan, he or she may be eligible for a grant to cover the portion that cannot be funded through a loan.

Paragraph 12.4 Applicant Eligibility [7 CFR 3550.103]

In order to determine the amount an applicant is able to repay, the Loan Originator must work with the applicant to complete *Form RD 1944-3, Budget and/or Financial Statement*. This form must also be prepared for grant applicants in order to document the fact that they do not have the ability to repay a loan. This form should be prepared with the applicant at the same time the application is completed.

E. Age for Section 504 Grants

At least one applicant must be 62 or older for a household to qualify for a grant.

F. Ownership of Property [7 CFR 3550.107]

The applicant must own and occupy the property to be eligible for Section 504 funds, and must be able to document ownership, as described in Paragraph 5.11, with 3 exceptions.

First, the time restrictions for leasehold interests are different. In general, Section 502 loans must have a leasehold interest with an unexpired term that is at least 150 percent of the term of the mortgage. For Section 504 loans, the property must be covered by a lease with an unexpired portion of not less than 2 years beyond the term of the promissory note, and for grants, the remaining lease period must be at least 5 years.

Second, a land purchase contract is acceptable if the applicant is current on all payments and has the ability to remain current.

Third, if standard evidence of ownership, as described in Paragraph 5.11, is not available, Section 504 loan/grant applicants may demonstrate ownership by presenting any of the following:

- Records of the local taxing authority that show the applicant as owner and that demonstrate that real estate taxes for the property are paid by the applicant;
- Affidavits by others in the community stating that the applicant has occupied the property as the apparent owner for a period of at least 10 years, and is generally believed to be the owner; or

- Any instrument, whether or not recorded, that is commonly considered evidence of ownership, such as a deed or mortgage.

12.5 PROPERTY ELIGIBILITY

A. Property Requirements [7 CFR 3550.106(a)]

To be eligible for Section 504 funds, the property must be considered modest for the area, must not have an in-ground pool, and must not have a value in excess of the area loan limit. Individual exceptions may be granted by the Deputy Administrator, Single Family Housing. Requests for exceptions must be accompanied by documentation to support the request.

A Section 504 loan or grant may be made for a property that has income-producing land or structures, as long as the loan or grant is to be used to improve the residential portion of the property.

B. Determining Property Value [7 CFR 3550.111]

Appraisals for Section 504 loans are to be performed only by Agency employees whenever feasible. Contract appraisals may be used when it is not feasible to have Agency employees complete the appraisals. Section 504 applicants are required to pay an appraisal fee. The cost of the appraisal may be included in the 504 loan amount.



An appraisal is always needed for a Section 504 loan when the RHS loan is \$7,500 or more and the Agency debt plus any prior liens exceeds \$15,000. In all other situations, the Loan Approval Official will determine whether an appraisal is needed to assure adequate security exists for the proposed loan. Appraisals are only needed if a security interest will be taken.

When an appraisal is not required, the person who inspects the property for required repairs should estimate its value. The estimated value and the method used to develop the estimate should be documented carefully in the running case record. For additional guidance on appraisals see Section 5 of Chapter 5.



Paragraph 12.5 Property Eligibility

C. Construction Standards [7 CFR 3550.106(c)]


Dwellings repaired with Section 504 loan or grant funds must remain modest and all work must be completed in accordance with local codes and standards. They need not be brought to Agency development standards, nor must all of the existing hazards be removed, provided the property does not continue to have major health or safety hazards after the planned repairs are made. Please refer to Section 6, Chapter 5 for all construction management information.

D. Environmental Requirements

Section 504 loans and grants are subject to the same environmental requirements as Section 502 loans, as described in Section 3 of Chapter 5.

12.6 INTEREST RATE AND LOAN TERM [7 CFR 3550.113]

Section 504 loans have an interest rate of 1 percent and a maximum term of 20 years. The term should be as short as possible based on the applicant’s repayment ability. However, any loan made in conjunction with a grant must be made for the full 20-year term to minimize the amount of grant funds required.

	<p>Loan/Grant Combinations</p> <p>Loans made in combination with grants must be amortized over the full 20 years. This will maximize the loan amount while minimizing the grant amount.</p>
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If the loan amount is less than the maximum that the applicant could repay, the loan term should be shortened so that the applicant will pay the maximum amount he or she can afford each month during the term of the loan. For example, if an applicant’s repayment ability calculations indicate the ability to repay a loan in 10 years, the loan should be written for a 10-year term rather than for the maximum term.

Annual payment terms are not permitted under Section 504.

12.7 MAXIMUM LOAN AND GRANT AMOUNTS [7 CFR 3550.112]

A. Maximum Loan Amount

The maximum loan that an individual applicant may receive is limited by the 3 factors discussed below.

- **Outstanding loan amount.** The sum of the outstanding balance on all Section 504 loans can never be more than \$20,000.
- **Repayment ability.** The applicant must demonstrate repayment ability based on an analysis of *Form RD 1944-3, Budget and/or Financial Statement*.
- **Eligible costs.** The applicant can only receive loan funds to cover eligible costs. (For example, if the applicant has only \$5,000 of eligible repairs to make, the maximum loan allowed is \$5,000.)

B. Grant Limits

Grant funds are limited by 2 factors:

- **Ability to repay a loan.** An applicant is only eligible for a grant if a budget analysis based on *Form RD 1944-3* indicates that the household would be unable to repay a loan for the amount needed over 20 years. If a budget analysis indicates that a grant applicant has partial repayment ability, as much of the amount as possible must be issued as a loan, with only the remainder issued as a grant.
- **Lifetime maximum.** The lifetime grant assistance to any applicant cannot exceed a cumulative total of \$7,500.

12.8 LOAN APPROVAL AND CLOSING [7 CFR 3550.108]

A. Loan Approval

Notifications of loan approval or denial of credit should be handled with use of *Handbook Letter 12 (3550)*, *Notification of Approval*, and *Handbook Letter 15 (3550)*, *Standardized Adverse Decision Letter*, respectively. Preparation of all forms needed to close the loan should be handled in accordance with Chapter 8.

B. Security Requirements

If the total Section 504 indebtedness is \$7,500 or more, it must be secured by a mortgage on the property. The Agency does not require first lien position, but the total of all debts secured by the property must not exceed the property's market value, except by the amount of any required contributions to an escrow account for taxes and insurance and the tax service fee.

C. Loan Closing

Loans less than \$7,500 may be closed by the Loan Originator or designee. Loans of \$7,500 and greater must be closed by a closing agent. The process for selecting a closing agent is the same as for a Section 502 loan, and is detailed in Paragraph 8.4.

12.9 GRANT APPROVAL AND DISBURSEMENT

A. Grant Approval

Grant recipients should be notified by sending *Handbook Letter 12(3550)*, *Notification of Approval (504 Grant)*, that the grant has been approved.

B. Grant Repayment Agreements [7 CFR 3550.114]

Before any grant funds are disbursed, the recipient must sign *Form 3550-24, Grant Agreement*. The agreement states that if a home repaired with a Section 504 grant is sold within 3 years of grant approval, the full amount of the grant must be repaid. In the case of a life estate interest or an undivided ownership interest, as described in Paragraph 5.11, all co-owners living or planning to live in the household must sign *Form 3550-24*. The original *Form 3550-24* should be filed with the promissory notes in a locked file cabinet with a copy to the case file and a copy provided to the recipient.

C. Documentation of Grants

In order to ensure that applicants do not receive more than the maximum allowable grant assistance of \$7,500, the Loan Originator must document the amount of any grant provided to each grantee. This information should be maintained on a single list which is retained in an operational file. The list should include: (1) the grantee's name, address, and case number; (2) the amount of the grant; and (3) the date the grant was approved.

12.10 ESCROW, TAXES, AND INSURANCE [7 CFR 3550.109, 7 CFR 3550.110]

If the total outstanding indebtedness is more than \$15,000, Section 504 borrowers are responsible for furnishing and maintaining hazard insurance, as described in Section 3 of Chapter 7. If funds are not escrowed through another lender to pay for taxes and insurance, the borrower must contribute the appropriate amount to an escrow account managed by the Agency. Escrow is also not required where the security property includes a farm and the property is not subdivided between the farm and non-farm tract unless the housing represents the majority of the value of the security property or it is in the Agency's best interest.

Flood insurance is required in Special Flood Hazard Areas (SFHA) throughout the term of a loan, except for loans with an original principal balance of \$5,000 or less. For grants of more than \$5,000, flood insurance is required when the grant is approved, unless grant funds will be used to obtain the insurance.

ATTACHMENT 12-A
SUMMARY OF DIFFERENCES BETWEEN
SECTION 504 LOANS AND GRANTS

Note: *This attachment summarizes key requirements to assist the reader in comparing Section 504 loans and grants. It is not a comprehensive description of all requirements.*

Topic	Section 504 Loan	Section 504 Grant
Use of Funds	May be used to: (1) improve or modernize; (2) make dwelling decent, safe, and sanitary; (3) remove hazards. Cannot be used for acquisition or new construction. Specific prohibitions are listed in Paragraph 12.2 A.	May be used only to remove health and safety hazards or to make dwelling accessible to household member with disabilities.
Drug-Free Workplace	N/A	Applicants must certify that they will not engage in the unlawful manufacture, distribution, dispensing, possession, or use of a controlled substance in conducting any activity with the grant.
Credit Reports	Needed if loan > \$7,500, but no fee charged.	N/A
Age of Applicant	N/A	62 or older
Leaseholds	The property must be covered by a lease with an unexpired portion of not less than 2 years beyond the term of the promissory note.	The remaining lease period must be at least 5 years.
Appraisals	Fee charged if appraisal completed. Appraisal performed by Agency employee or contractors if loan over \$15,000.	N/A
Maximum Assistance	\$20,000 outstanding at one time.	\$7,500 lifetime limit.
Security	If Section 504 loan is >or equal to \$7,500, a mortgage is required.	No security required.
Insurance	If indebtedness >\$15,000, property insurance is required. Flood insurance is required in Special Flood Hazard Areas (SFHA)> \$5,000.	Flood insurance is required in SFHA at grant approval for grants of >\$5,000.

ATTACHMENT 12-B
DIFFERENCES BETWEEN SECTION 502 AND SECTION 504 LOANS

Note: *This attachment summarizes key requirements to assist the reader in comparing Section 502 and 504 loans. It is not a comprehensive description of all requirements.*

Topic	Section 502 Loan	Section 504 Loan
PROGRAM PURPOSES AND PRIORITIES		
Program Purpose	Assist applicants who are not homeowners to become homeowners.	Assist current homeowners with necessary improvements and repairs.
Processing Priorities	Multiple priorities may apply. Applications that meet special criteria are processed immediately upon funding availability.	Applications for assistance to remove health and safety hazards receive priority processing.
LOAN PURPOSES		
Eligible Purposes	In general, funds may be used to buy, build, rehabilitate, improve, or relocate an eligible dwelling and provide related facilities for the borrower to personally occupy. No initial loans for repair of manufactured homes.	Remove health and safety hazards. Repair or remodel dwelling to make more accessible and useable for household members with a disability. General repairs to improve or modernize a home. Repair mobile or manufactured homes.
APPLICANT ELIGIBILITY		
Income	Applicant income must not exceed low-income limit at loan approval and must not exceed moderate-income limit at loan closing.	Applicant income must not exceed the very low-income limit at loan approval and closing.

Topic	Section 502 Loan	Section 504 Loan
APPLICANT ELIGIBILITY		
Credit Requirements	Credit history must demonstrate ability and willingness to pay. Costs for credit reports are charged to applicant.	The same criteria are used for evaluating a loan applicant's credit history. However, general credit requirements maybe less stringent than those for section 502 loans. Costs for credit reports are not charged to the applicant.
Asset Requirements	Applicants are required to contribute nonretirement assets above \$7,500 (\$10,000 for elderly), and available retirement funds in excess of applicable median income limit toward the purchase of the property. Exceptions can be made for households with high medical expenses.	Same as Section 502, except nonretirement assets include only assets that can be converted to cash within <u>90 days</u> .
Repayment Ability	Applicants must show repayment ability based on ratios.	Applicants must show repayment ability based on a budget. Applicants 62 and over who lack the ability to repay the entire amount of the loan may be eligible for grant funds.
Ownership	The applicant need not own the property. A leasehold must have an unexpired term of at least 150% of the term of the mortgage, unless the loan is guaranteed by a public authority, Indian tribe, or Indian Housing Authority. No exceptions on ownership evidence.	The applicant must own the property. A leasehold must have an unexpired term of at least 2 years beyond the term of the mortgage. If standard evidence of ownership is unavailable, exceptions may be made.

Topic	Section 502 Loan	Section 504 Loan
PROPERTY REQUIREMENTS		
Area Loan Limit	Individual exceptions are allowed.	No individual exceptions.
Property Standards	The property must meet the Agency's site and dwelling standards.	The property: (1) need not be brought to Agency development standards; (2) need not have all hazards removed; <i>but</i> (3) must have all major health or safety hazards removed.
Appraisals	Appraisals may be conducted by an Agency employee or an outside contractor satisfactory to the Agency. Applicants are required to pay an appraisal fee.	Applicants are required to pay an appraisal fee if loan is greater than \$15,000.
LOAN TERMS		
Interest Rate and Loan Terms	The applicable Rural Housing (RH) Section 502 low or moderate interest rate in effect at loan approval or closing, whichever is lower. Standard term is 33 years; some applicants may qualify for a 38 year term. Borrowers may be eligible for payment subsidies that reduce the effective interest rate.	1 percent interest rate and a maximum loan term of 20 years.
Loan Amount	Total secured indebtedness must not exceed the area loan limit or the market value.	Total secured indebtedness must not exceed the area loan limit or the market value limitation. The outstanding balance on the sum of all Section 504 loans cannot exceed \$20,000.

Topic	Section 502 Loan	Section 504 Loan
LOAN APPROVAL AND CLOSING		
Loan Closing	Loans must be closed by a closing agent.	Loans of \$7,500 or less may be closed by the Loan Originator or a designee.
Security	First liens are generally required, but Agency interests may be subordinated in some circumstances.	First lien position is <i>not</i> required.
INSURANCE		
Insurance Requirements	If indebtedness is greater than \$15,000, property insurance is required.	If indebtedness is greater than \$15,000, property insurance is required.

504 SINGLE FAMILY HOUSING LOAN AND GRANT CHECKLIST

“THIS CHECKLIST DOES NOT REPLACE THE RUNNING RECORD!”
(This document should be filed in position 1)

Applicant: _____ Co-Applicant: _____

POS DATE

PRE-QUALIFICATION/PRELIMINARY ELIGIBILITY

- 3 _____ Enter pre-qualification information from potential applicant into UniFi & Registration Screen (Use Requested Product Code 999 if no actual application).
- 3 _____ Use Pre-Qual Worksheets/Maximum Loan Amount to evaluate potential applicant
- 3 _____ **RD 3550-1, Authorization to Release Information** – signed by each adult member of household. Attach copy to any verification that does not have applicant’s signature. **(HB-1, 3.3)** (Although not required at pre-qual, the preliminary credit check described in HB-1, 4.11 may be completed when a signed RD 3550-1 is received)
- 3 _____ **Infile Credit Report (HB-1, 3.3, 4.11)**
- 4 _____ **HB Letter 19 (3550)** as applicable to counsel the customer (should only be used for pre-qualifications without an application). Document pre-qual discussion in running record **(HB-1, 3.3)**
- 3 _____ **Print out Eligibility Summary from pre-qual** – sign and date - must be in file prior to rejection, withdrawal or approval **(Enter actual loan/grant amounts, if known)**

Review application for completeness within 3 business days of receipt. Call or write the applicant to request any missing information. Follow up with a letter advising applicant of a 30-day deadline for submission or the application will be withdrawn. Mark files as inactive until complete. (HB-1, 3.6)

POS DATE

APPLICATION PROCESSING

- 3 _____ **RD 410-4, Uniform Residential Loan Application**, include information sheet similar to Attachment 3-D and **RD 3550-1, Authorization to Release Information** (if not completed at Pre-qual) **(HB-1, 3.5)**
- 3 _____ **Infile Credit Report** (if not completed at pre-qual) **(HB-1, 3.3, 4.11)**
- 3 _____ **Check on-line HUD CAIVRS**, print pages and file in applicant file (if not completed at pre-qual) **(HB-1, 3.3, 4.11)**
- 3 _____ **Check MortgageServ CUS/XRE/SOC screens** (if not completed at pre-qual) **(HB-1, 3.3, 4.11)**
- 3 _____ **Check list of 504 Grant recipients for prior assistance** (\$7,500 lifetime limit) **and 504 loan balances for subsequent loans** (\$20, 000 maximum outstanding balance) **document in running record**
- 3 _____ **Photographic Identification and Verification of age** (grants only) **(HB-1, 4.21)**
- 5 _____ **Evidence of homeownership and occupancy:** (copy of Deed, RE Tax Statement, etc.) **(HB12-4)**
- 6 _____ **Verify eligibility of subject property.** **(HB-1, 5.1)**
<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>
- 3 _____ **Enter application complete date in stage updating of UniFi and on Form RD 410-4**
- 3 _____ **Forward Attachment 3-H, Credit Score Disclosure, to applicant–** (date Attachment 3-H, page 2 returned _____) **(HB-1, 3.6)**
- 4 _____ **Funds Available; send HB Letter 11, Selected for Processing/Request Information (HB-1, 3.14)**
- 4 _____ **Funds Not Available; send HB Letter 2 , Pre-eligible (HB-1, 3.13)**

POS DATE

ELIGIBILITY PROCESSING

- 3 _____ **1944-3, Budget and/or Financial Statement** (compare debts with application and credit report)
Review with applicants and document food stamps, utility, or other assistance. **Enter information in Cash Expense Screen of UniFi**

INCOME

- 3 _____ **RD 1910-5, Request for Verification of Employment** – If alternative verification source is used, document justification in running record (HB-1, 4.3):
_____ 1) if no response in 14 days, call and document carefully
_____ 2) if respondent will not complete written verification, obtain oral documentation
_____ 3) if VOE is over 120 days old update by phone & document to extend another 60 days
- 3 _____ **Other Income/Asset documentation (HB-1, 4.3, 4.5):**
_____ Public Assistance/AFDC _____ Self-employment income
_____ Child Support/Alimony _____ Social Security/VA Benefits
_____ Unemployment Benefits _____ Pensions/Annuities
_____ Latest filed & signed Federal Income Taxes _____ Other
_____ Employment and Asset Certification (Form RD 3550-4) – If applicant self certifies that their household’s combined net assets exceed \$5,000, verify assets as outlined in HB-1, 4.3.
- 3 _____ **Attachment 4-A, Sample Worksheet for Computing Income (HB-1, 4.2)**

DEDUCTIONS

- 3 _____ **Deduction documentation (HB-1, 4.4):**
_____ Child Care _____ Educational Assistance Expenses
_____ Elderly/Disabled (RD 1944-4, if applicable) _____ Full-time Student status
_____ Medical Expenses _____ Minor Dependent
_____ Other
- 3 _____ **Separation/Divorce/Paternity/Property Settlement Agreement, if applicable**

CREDIT

- 3 _____ **Residential Mortgage Credit Report (RMCR) documentation** (Only loans \$7,500 or greater [no grants] – no charge to the applicant) (HB-1, 4.12 & 12.4):
_____ Report: Requested _____ Received _____
_____ Document in item 19 of RD 410-4
_____ Credit Scores: Applicant _____ Co-Applicant _____
- 3 _____ **Credit score is less than 640 (HB-1, 4.12 & 4.13):**
_____ Applicant Reference Letter (RD 410-8)
_____ Credit History Worksheet (1944-61)

OTHER

- 3 _____ **RD 3550-2, Request for Verification of Gift/Gift Letter**, if applicable - (HB-1, 4.3 & 6.15)
- 3 _____ **Document applicant has lack of personal assets and meets asset limitations** (\$7,500 for non-elderly and \$10,000 for elderly) (HB-1, 4.6, 6.10, and 12.4)
- 3 _____ **Citizenship status** (if not a citizen, see HB-1-3550, Attachment 4-D (S.A.V.E.) (HB-1, 4.20)
- 3 _____ **Document Eligibility on originally submitted Application - item 17.** Update UniFi/Stage Updating, print, and sign Eligibility Summary
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POS DATE

PROPERTY ELIGIBILITY

- 3 _____ Visit property within 30 days of eligibility determination (document in running record) (HB-1, 12.3) Date of visit: _____
- 6 _____ HB-1-3550, Attachment 5-A (HB-1, 5.1)
- 6 _____ Photographs of property and essential repairs (during initial visit and final inspection). Prepare a list of all repairs (HB-1, 12.3)
- 8 _____ Appraisal Report, or document Statement of Value (appraisal if loan is greater than \$7,500 needed and Agency debt plus prior lien is greater than \$15,000 (HB-1, 12.5)
- 8 _____ RD 1922-15, Administrative Appraisal Review for Single Family Housing - within 7 days of appraisal (HB-1, 5.21); Reviewed and Accepted _____ (initial and date)
- 6 _____ Lead Based Paint (LBP) Compliance Key and Print Out (houses built prior to 1978) http://teamrd.usda.gov/rd/rhs/PSS/Lead_Paint/lead_based_paint_key.htm
- 3 _____ RD 1940-22, Environmental Checklist for Categorical Exclusions or RD 1940-21, Environmental Assessment for Class I Action (loans only) - as applicable (1940-G & HB-1, 5.8)
- 6 _____ FEMA 81-93, Standard Flood Hazard Determination (HB-1, 5.1) (<http://www.LATFnet.com>)
- 3 _____ RD 3550-6, Notice of Special Flood Hazards, Flood Insurance Purchase Requirements, and Availability of Federal Disaster Relief Assistance, as applicable (mail 10 days prior to closing) (HB-1, 5.1)

POS DATE

CONSTRUCTION

- 6 _____ Provide applicant with detailed cost estimates/specifications from bidders. (Attempt to obtain 3 bids) (HB-1, 5.25 and 12.3)
- 6 _____ Review detailed bids from contractor(s) with cost breakdown or labor and materials (HB-1, 5.25)
- 6 _____ RD 1924-2, Description of Materials, if applicable (HB-1, 5.24)
- 6 _____ RD 1924-1, Development Plan
- 6 _____ RD 1924-6, Construction Contract (Send Exhibit C, RD Instruction 1901-E within 10 days) (HB-1, 5.25) DOL web site (<http://www.dol.gov/esa/contacts/ofcpcp/ofcpcpkey.htm>)
- 6 _____ RD 1924-16. Record of Pre-Construction Conference or other documentation (HB-1, 5.25)
- 6 _____ "400 Series" (400-1, 400-3, 400-6, posters and Exhibit C of 1901-E), as applicable (<http://www.dol.gov/esa/contacts/ofcpcp/ofcpcpkey.htm>) (HB-1, 5.25)
- 2 _____ RD 402-1, Deposit Agreement and RD 402-2, Statement of Deposits and Withdrawals, if applicable
- 6 _____ RD 1924-7, Contract Change Order, if applicable
- 6 _____ RD 1924-12, Inspection Report, frequency as appropriate for type of rehab. Final Inspection Report dated and signed by borrower, contractor, and RD Inspector (HB-1, 5.26)
- 6 _____ RD 1924-9, Certificate of Contractor's Release & RD 1924-10, Release by Claimants, as applicable
- 6 _____ RD 1924-19, Builder's Warranty if construction contract used (HB-1, 5.27)

POS DATE

UNDERWRITING/APPROVAL

- 3 _____ Reverify income - if over 120 days old (HB-1, 8.6)
- 3 _____ Update Eligibility Summary with correct information, sign and date – must be in file at rejection/approval (HB-1, 6.17)
- 2 _____ Verify UniFi Program Type Code (must match income type) Program Type Code: _____

POS DATE

UNDERWRITING/APPROVAL (CONTINUED)

- 2 _____ **Update all screens in MortgageServ before uploading file; check Display History Screen for correct loan amount.**
- 4 _____ **If rejected, use HB Letter 15 (3550), Standardized Adverse Decision Letter, and attach review & appeal rights (HB-1, 1.9 & 8.2)**
- 2 _____ **RD 3550-7, Funding Commitment and Notification of Loan Closing** (loans only) – issued day of approval/obligation in MortgageServ (if not signed and returned in 15 days, must de-obligate) (HB-1, 8.2)
- 2 _____ **RD 3550-23, Applicant Orientation Guide (HB-1, 8.6)**
- 4 _____ **Handbook Letter 12 (3550), Notification of Approval** – send once loan and/or grant funds are obligated
- 2 _____ **RD 1940-41, Truth in Lending Statement** – printed from UniFi **Date returned:** _____
- 2 _____ **Obligate through MortgageServ (HB-1, 8.7)**

POS DATE

CLOSING

- 5 _____ **RD 1927-4, Transmittal of Title Information (HB-1, 8.4)**
 - 5 _____ **Title Insurance** required for loans \$7,500 or greater (HB-1, 8.4)
 - 5 _____ **RD 1927-9, Preliminary Title Opinion** (loans \$7,500 or greater), as applicable (HB-1, 8.4)
 - 7 _____ **Hazard Insurance Binder & Receipt for 1st year premium** for loans \$15,000 or greater (HB-1, 7.12)
 - 7 _____ **Flood Insurance Binder & Receipt for 1st year premium** required for properties located in Special Flood Hazard Area (Loans and grants \$5,000 or greater)
 - 5 _____ **Review Title Insurance Binder/Preliminary Title Opinion and verify legal description is correct**
If exceptions noted affect the security value, loan cannot close (HB-1, 8.5)
 - 3 _____ **Update and print Eligibility Summary with correct information** – sign, date, and file in case file
 - 7 _____ **RD 3550-15, Tax Information** – loans \$15,000 or greater (HB-1, 7.10)
 - 5 _____ **RD 3550-9, Initial Escrow Account Disclosure Statement**, loans \$15,000 or greater (HB-1, 7.5 & 12.10)
 - 5 _____ **RD 3550-25, Loan Closing Instructions and Loan Closing Statement** – for loans \$7,500 or greater (should include documents to be signed at closing) (HB-1, 8.11)
 - 5 _____ **Re-verify Closing Agent’s account numbers**, if necessary
 - 5 _____ **IN-1 Closing Select/Add Agent Screen**
 - 2 _____ **RD 3550-17, Funds Transmittal Report** for tax service & appraisal fees, escrow funds, etc. (copy in Collections Operational File) (1951-B, if applicable)
 - 5 _____ **RD 3550-19, Transmittal-Closing Documents & Attachments**, as applicable (Grant documents are not sent to CSC) (HB-1, 8.11)
 - 3 _____ **RD 410-4, Uniform Residential Loan Application - PRINTED FROM UniFi**
 - 3 _____ **Check EPLS for all parties** (<http://epls.arnet.gov>) – print hard copies for file (1940-M)
 - 5 _____ **RD 1927-5 “Affidavit Regarding Work of Improvement”** (if required by State Supplement) send blank to closing (1927-B, 1927.58)
 - 2 _____ **RD 1940-16, Promissory Note** (original in safe) - all loans (HB-1, 8.9)
 - 5 _____ **RD 1940-59, Settlement Statement or HUD 1** (loans \$7,500 or greater using closing agent – sent blank) (HB-1, 8.5)
 - 2 _____ **RD 1940-43, Notice of Right to Cancel** - for junior liens if mortgage taken (HB-1, 8.6)
 - 5 _____ **RD 3550-14, Real Estate Mortgage or Deed of Trust for (State)** – (\$7,500 or greater – sent blank) (HB-1, 8.11)
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POS DATE

CLOSING (CONTINUED)

- 5 _____ RD 1927-10, Final Title Opinion, if applicable
- 5 _____ RD 1927-8, Agreement with Prior Lienholder, if applicable (HB-1, 8.6)
- 2 _____ RD 3550-24, Grant Agreement (original in safe; copy in case file) (HB-1, 12.9)
- 5 _____ RD 3550-29, Document Errors and Omissions Agreement (HB-1. Attachment 8-A)

POS DATE

POST CLOSING

- 5 _____ Verify closing documents faxed to CSC in required time frame (HB-1, 8.11)
 - _____ Verify proper lien position.
 - _____ Post 1 month follow-up for recorded Real Estate Mortgage.
 - _____ Post follow-up for Title Insurance Policy (60 days) or Final Title Opinion (14 days).
(If not received, contact Closing Agent by mail with a copy of the letter to the insurance company.)
- 2 _____ Activate loan and verify mailing address in MortgageServ. (Loans with rescission rights **do not activate until rescission period has expired**) address must received a code 1 or 2 to be valid or must explain and document discrepancy (HB-1, 5.1)
<http://eligibility.sc.egov.usda.gov/eligibility/addressVerification>
- 5 _____ RD 3550-25 – Loan Approval Official approves after all forms are returned, reviewed, and correct (HB-1, 8.11)
- 2 _____ Delinquent/Lienholder Screen – complete MortgageServ screen for each leveraged partner –
Include forgivable loans from CDCs and Non-Profits
_____ Set up and monitor 504 loans for 1st year delinquency