USDA Guaranteed Rural Housing Renovation Program Guidelines

Revised 1/2/2025 rev. 108

(**Click the link to go straight to the section)**

Section 1 Program Summary

The rehabilitation and repair feature of the USDA Single Family Housing Section 502 Guaranteed Loan Program (SFHGLP) allows borrowers to finance the cost of repairs to improve an existing dwelling at the time of purchase. The maximum loan amount cannot exceed the cost of acquisition plus the cost of repairs up to the as-improved market value, plus the guarantee fee, if financed. The borrower obtains one loan at a fixed interest rate to finance both the acquisition and the rehabilitation of the property.

The SFHGLP offers assistance to low- and moderate-income rural residents whose income is equal to or less than 115% of the area median income by enabling access to affordable housing finance options with little or no down payment or out-of-pocket costs. A rural community generally has a population of 10,000 or less; however, a community with a population of 20,000 or less can be considered “rural” if it is located outside a metropolitan statistical area (MSA). To be eligible for RHS assistance, the borrower must lack sufficient resources to qualify for traditional conventional financing. Refer to HB-1-3555, Chapter 5, for definition of traditional conventional credit.

PDF Version of Single Family Housing Guaranteed Loan Program (SFHGLP) Handbook HB-1-3555

Section 2 Product Codes

Product Name	Product Code	Available Term in Months
USDA Rural Housing Renovation Standard 30 Year Fixed	USDARH30K	360
USDA Rural Housing Renovation Limited 30 Year Fixed	USDARH30KS	360
USDA Rural Housing Renovation Standard 30 Yr Fixed w/2-1 Buydown	USDARH30KBD21	360
USDA Rural Housing Renovation Standard 30 Yr Fixed w/1-0 Buydown	USDARH30KBD10	360

Section 3 Program Matrix

USDA GUARANTEED RURAL HOUSING RENOVATION				
Primary Residence - Purchase				
Property Type	**LTV**	**CLTV**	**Min Credit Score**	**Max DTI**
1 unit	100%	100%	620	34/41%

Section 4 Loan Limits

The maximum loan amount is based on the 1-unit standard conforming balance limit.

Max Base Loan Amount		
Property Type	**Contiguous U.S.**	**Alaska & Hawaii**
1 unit	$806,500	$1,209,750

Refer to Section 29: Calculating the Mortgage Amount/USDA Renovation Calculator.

Section 5 Transactions

Purchase transactions only

Land contracts are eligible and will be treated as purchase transactions in all cases. 12 months cancelled checks are to be provided as housing payment history.

Section 6 Occupancy

Owner-occupied Primary Residence

Section 7 Property Eligibility

Eligible Properties: Attached/Detached SFRs/PUD

- Property must be completed construction of 12 months or older.
    - Evidence that the home has been completed for 12 months or older must be obtained.
        - Evidence of completion such as a Certificate of Occupancy or documentation from local taxing entities is acceptable.
    - New construction or incomplete constructions are not eligible.
    - If the dwelling must be demolished as part of the rehabilitation, the complete existing foundation must still be in place and will be used.
        - Evidence by a licensed engineer that the existing foundation is structurally sound and supports the proposed construction is required.
    - Properties where the foundation has been demolished or where only the footings remain, are not eligible.
- The property must be located in a rural area, as designated by the local RHS office. To determine whether the property is located in a designated rural area, go to the **RD Website** and from the home page under "Property Eligibility" click "Single Family Housing". Property can be looked up by address or by viewing the "Additional Eligible Areas" or "Text Descriptions".

- The property must be a single family non-farm residence.
  - Subject property may have **minimal** income producing land (i.e. billboard, windmill, etc.) as verified with a legal agreement. This income must be included in the Annual Household Income but it is not eligible for DTI calculations. Refer to **HB-1-3555, Chapter 12**.
- The value of the site should be typical for the area.
- The property must be contiguous to and have access to a paved or all-weather surface street, road or driveway.
- Privately maintained roads must be protected by a permanently recorded, non-exclusive, non-revocable easement or be maintained by the Homeowner's Association.
- The property must have dependable water and waste disposal systems that are approved by local authorities.
- Remaining Economic Life must meet or exceed the term of proposed loan.
- Existing properties located within a flood zone are eligible (when and only if NFIP is available). Flood insurance is required.

Accessory Dwelling Units (ADUs): Properties with an ADU may be eligible if the ADU is used to support the household members and not to generate rental income. Refer to **HB-1-3555, Chapter 12** for complete details.

Ineligible Properties:

- Condos including site/detached condos
- Manufactured Housing
- Homes that have not been completed for at least one year
- Properties listed on the National Historical Register
- 2-4 units
- Mobile Homes
- Geodesic domes
- Cooperatives
- Properties with more than one detached garage may be considered non-essential for Rural Housing and therefore may not be acceptable. Exceptions may be requested through the local Rural Development office.
- Properties that are actively used as a farm operation, cases where the seller previously used the property to operate a farm, or properties that contain farm service building(s), even if the building(s) have no contributory value. Refer to **HB-1-3555, Chapter 12** for additional information.

Section 8 Property Flips / Resale Requirements

Property flipping is a practice whereby a property recently acquired is resold for a considerable profit with an artificially inflated value. If the owner (individual or entity other than the Mortgage holder) sells a property within 12 months after the date of acquisition, the underwriter should ensure that value is supported. Generally, purchases of properties that have been acquired within the last 12 months are eligible when any increase in value can be supported.

Eligible Borrowers:

- Borrowers must lack sufficient resources to obtain conventional financing (for example, the borrower is unable to secure the necessary down payment needed for conventional financing, refer to USDA **HB-1-3555, Chapter 5** for additional details).
- Borrowers must have a valid Social Security number.
- Title must be placed in individual names only.
- All borrowers must be screened using Credit Alert Interactive Voice Response System (CAIVRS) to determine if an applicant is delinquent on a federal loan.
- A maximum of four borrowers allowed on a single transaction.
- Permanent Resident Aliens - Refer to USDA **HB-1-3555, Chapter 8**.
- Non-Permanent Resident Aliens - Refer to USDA **HB-1-3555, Chapter 8**.
- First Time Home Buyers
- Generally, borrowers may not own more than one property. Refer to **Maximum Owned Properties**.

Non-Purchasing Spouse (NPS) in Community Property States:

Except for obligations specifically excluded by state law, the debts of NPSs must be included in the applicant's qualifying ratios when the applicant resides in a community property state or the property guaranteed is located in a community property state. The NPSs credit history is not considered a reason to deny a loan application. However, the NPSs obligations must be considered in the debt-to-income (DTI) ratio unless excluded by state law. A credit report that complies with Rural Development requirements must be obtained for the NPS in order to accurately determine the debts that must be counted in the total debt ratio. Community property states include: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

Note: Guaranteed Underwriting System (GUS) will only retrieve credit reports for applicants. Therefore, lenders must obtain an acceptable credit report outside of GUS for applications in community property states. On the "Asset and Liabilities" application page lenders must enter the debt obligations (those obligations not excluded by state law) of the NPS in the appropriate liability section. In the "Notes" data field lenders should identify the debt as "spousal debt".

First Time Homebuyers:

Please note that homebuyer education may be required per USDA. When applicable, the borrower may attend online classes offered by Mortgage Insurance (MI) companies, or any other type of homebuyer counseling that meets Fannie Mae and/or Freddie Mac requirements.

Ineligible Borrowers:

- Foreign Nationals
- Non-occupant co-borrowers
- Partnerships/Corporations
- Trusts

Section 10 Identity of Interest

Identity of Interest and Non-Arm's Length describe transactions that may pose increased risk and warrant additional precautions. Example: borrower has a relationship or business affiliation (any ownership interest, or employment) with any builder, contractor, or seller of the property.

- The borrower may be the current tenant purchasing the property from the owner/landlord.
  - The borrower must have rented the property for at least six months immediately predating the sales contract.
  - A lease or other written evidence to verify occupancy is required.
- Sales transactions between family members are permitted.
- Borrowers related to or having a business affiliation with the contractor are not allowed.
- No other instances of Identity of Interest or conflict of interest between parties are allowed

Employees that have an impact on the mortgage transaction (i.e. loan originators, processors, underwriters, appraisers, inspectors, etc.) are prohibited from having multiple roles or multiple sources of income, either directly or indirectly, in a single Rural Development transaction. Examples include but are not limited to: compensation resulting from an ownership interest in another business that is party to the same Rural Development transaction, or compensation earned by a spouse, domestic partner, or other family member that has a role in the same Rural Development transaction. Employees who are also the applicant may not participate in any part of the loan origination, approval, or closing process on behalf of the lender.

Chain of Title:

To preclude any undisclosed identity-of-interest transactions and to discourage the flipping of properties, documents must be obtained verifying the ownership of property for the 24-month period prior to the application for the loan. Chain of Title does not apply to HUD owned and REO.

Section 11 Subordinate Financing

Subordinate financing may be used if it is approved by RHS and is offered by city or county agencies.

Section 12 Underwriting Method

All loans must be decisioned through GUS and receive an Eligible recommendation. GUS approval should be obtained, however loans that receive a "Refer" or "Refer with Caution" may be eligible by exception.

In GUS, select Purchase as the loan purpose type on the Loan and Property Information page. On the Lender Loan Information page, identify the transaction as Renovation, Construction-Conversion/Construction-to-Permanent and select the Single-Closing radio button. On the Additional Data page, "Purchase is" field equals Existing.

Findings of "Ineligible" are not allowed. Loans that receive a finding of "Refer" or "Refer with Caution" may be manually underwritten by exception only and are subject to the requirements in USDA **HB-1-3555**. Regardless of a GUS Eligible Finding, the Lender is responsible for satisfactorily establishing the applicant's willingness and ability to repay and manage obligations. The Lender cannot rely solely on GUS approval for making a lending decision.

When manually underwriting a loan, the file must contain supporting documentation with a signed LOE from the borrower explaining the nature of any adverse credit. The underwriter's 1008 must include detailed justification for approving the loan listing any mitigating circumstances and compensating factors. The loan file must be documented with Plaza's exception approval.

Information that is entered into GUS must match the final 1003/1008, specifically loan application data submitted to the Agency must reflect a true and accurate representation of the loan to be closed. This data must match the loan file submitted to the Agency when requesting the Conditional Commitment for Loan Note Guarantee or fall within the tolerances established by the Agency.

- It is not necessary to perform an updated underwriting analysis of a loan file that has received a Conditional Commitment for Loan Note Guarantee when an increase in monthly payments does not exceed a cumulative total of $50.
- The threshold policy should not be construed to allow manipulation of escrow variables to obtain approvals.
- If the final income calculation is different from the GUS cert and the income changed enough to affect the ratios and/or loan eligibility, then the loan file must be re-submitted to GUS. In cases where a conditional commitment has already been issued by the local RD office, it will be necessary for the RD office to release the GUS cert back to the Plaza underwriter so the information can be updated and re-submitted to GUS. If the income has only changed slightly and the RD office is not requiring the loan to be re-submitted to GUS, document this in writing from the RD office and provide a screen print from USDA's income calculator showing the borrower is still eligible. See the **Income & Documentation** section for instructions.

All loans must receive a conditional commitment issued by the local RD office regardless of GUS findings. The following documentation is required at time of submission to the appropriate production team via email.

- Form RD **3555-21** "Request for Single Family Housing Loan Guarantee"
- Full income verification for all adult household members.
- Uniform Residential Loan Application
- Evidence of qualified alien status, if applicable.
- Standard Flood Hazard Determination

GUS recommendations that receive an Accept with Full Documentation, Refer, Refer with Caution, and manually underwritten files, require lenders to provide the agency a copy of annual and repayment income calculations with a complete loan application. Any of the following formats will be acceptable for documenting annual and repayment income calculations: **USDA HB-3555 Attachment 9-B**, or a copy of their Underwriting Analysis: FNMA 1008/FHLMC 1077, or equivalent.

Section 13 Credit

Credit Score:

- The minimum credit score for all borrowers is 620 regardless of GUS approval.
- Borrowers without a credit score are not eligible.

Credit Report Requirements:

A tri-merged credit report ordered by Plaza or a broker's BREEZE issued or re-issued credit report is required. For broker credit reports that have been issued or re-issued through BREEZE, the Plaza underwriter will follow these steps:

1. Create the loan application in GUS without submitting.
2. Email **clientsupport@plazahomemortgage.com** and request that BREEZE credit be re-issued in GUS ("GUS Credit" in subject line).
3. Client Support will email the branch when the credit report has been successfully re-issued in GUS and the branch can complete the GUS submission.

Credit History:

The borrower's credit history must indicate a reasonable ability and willingness to meet obligations as they become due. The following must be reviewed carefully:

Valid Credit Score - GUS Accept/Accept with Full Documentation: No credit score validation required.

Valid Credit Score - GUS Refer, Refer with Caution and Manual Underwrite:

- All applicants require a credit score and any applicant whose income and/or assets is used to originate the loan must have a validated credit score.
- The applicant must have two tradelines on the credit report that have been open for 12 months based on the date the account was opened as stated on the credit report.
- A validated credit score does not indicate the applicant has an acceptable credit history. A validated credit score confirms that one applicant has an eligible minimum credit history.

The following tradelines are eligible to validate the credit score and may be open, closed and or/paid in full: loans (secured/unsecured), revolving accounts, installment loans, credit cards, collections, charge-off accounts, etc. An authorized user account may be used to validate the credit score when of the following is met:

- The tradeline is owned by another applicant on the mortgage loan application;
- The owner of the tradeline is the spouse of the applicant; or
- The applicant can provide evidence that they have made payments on the account for the previous 12 months prior to loan application.
- Public records (bankruptcy, foreclosure, tax liens, judgments, etc.), disputed, and self-reported accounts are ineligible tradelines for credit validation.

GUS Refer, Refer with Caution, and manually underwritten files are not eligible for debt ratio exceptions if there is not one applicant with a validated score using traditional tradelines on the credit report, or if the file requires non-traditional credit tradelines.

Refer to **HB-1-3555, Chapter 10**.

Mortgage/Rental Payment History:

- 0 x 30 for the past 12 months
- Any delinquencies in the last 24 months are subject to Plaza underwriter approval and may require additional documentation.

If GUS waives the rental payment history but the borrower has sufficient other traditional credit to base a credit decision on, the underwriter may waive the rental payment history.

Child Support:

Delinquent child support renders the borrower ineligible unless there is a repayment agreement in place with three timely payments made prior to closing, the arrearage is paid in full prior to the loan closing or there is a release of liability.

Timely payments are defined as those made in congruence with the repayment agreement. Payments cannot be prepaid.

Bankruptcies / Foreclosure / Pre-Foreclosure / Short Sale / Deed-in-Lieu:

- Not allowed in the last 36 months.
- Exceptions to the 36 months seasoning requirement will be considered with documented extenuating circumstances. Refer to **HB-1-3555, Chapter 10**.
- Chapter 13 Bankruptcy may be acceptable if completed at least 12 months or if satisfactory payments have been made for at least 12 months. Refer to Refer to **HB-1-3555, Chapter 10**.

Adverse Credit: Delinquent federal debt or adverse credit on a previous Rural Housing loan must be reviewed and approved by the local RD office and may be required to be paid in full.

Non-Derogatory Disputed Accounts – For GUS Accept/Accept with Full Documentation Files:

If disputed accounts exist, loans underwritten with the assistance of GUS that receive an underwriting recommendation of "Accept" will be downgraded to a manual "Refer" unless the following conditions are met on the credit report:

- The disputed trade line has a zero dollar balance.
- The disputed trade line is marked "paid in full" or "resolved".
- The disputed trade line has a balance owed of less than $500 and is more than 24 months old.
- The disputed trade line is current and paid as agreed.
- The payment to include in the monthly debts:
    - The payment stated on the credit report or
    - A documented payment from the creditor is obtained or
    - Five percent of the outstanding balance as shown on the credit report.

Non-Derogatory Disputed Accounts - For GUS Refer, Refer with Caution or Manual Underwrite:

The applicant must provide the lender with applicable documentation to support the reason and basis for the dispute with the creditor. Lenders must determine the impact of the disputed account on the borrower's ability to repay the proposed mortgage obligation. No credit exception is required. The payment to include in the monthly debts:

- The payment stated on the credit report or
- A documented payment from the creditor is obtained or
- Five percent of the outstanding balance as shown on the credit report

Derogatory Disputed Accounts:

Disputed derogatory accounts that must be considered are non-medical and collections with late payments in the last 24 months. For all loan types, the lender may exclude the following:

- Disputed medical accounts/collections
- Charged off accounts
- Disputed derogatory accounts that are the result of identity theft, credit card theft, or unauthorized use when evidence (police report, attorney correspondence, creditor statement) is provided to support the applicant's explanation; or
- Accounts of a non-purchasing spouse in a community property state.

Derogatory Disputed Accounts – Less than $2,000:

GUS Accept/Accept with Full Documentation files with less than $2,000 in disputed derogatory accounts will require the lender to determine if the disputed accounts may impact the applicant's ability to repay the proposed mortgage obligation. No credit exception is required**.** The payment to include in the monthly debts:

- The payment stated on the credit report or
- A documented payment from the creditor is obtained or
- Five percent of the outstanding balance as shown on the credit report

Derogatory Disputed Accounts – Greater Than $2,000:

GUS Accept/Accept with Full Documentation files with more than $2,000 in disputed derogatory accounts must be downgraded to a Refer. The lender must analyze the potential impact to the applicant's ability to repay the proposed mortgage debt with disputed derogatory accounts. No credit exception is required. The payment is included in the monthly debts:

- The payment stated on the credit report or
- A documented payment from the creditor is obtained or
- Five percent of the outstanding balance as shown on the credit report

Collections:

If unpaid open collection accounts exist:

- Determine if the total outstanding balance of all collections accounts of all applicants is equal to or greater than $2,000. Unless excluded by state law, collection accounts of a non-purchasing spouse in a community property state are included in the cumulative balance of all collections.
- Remove all medical collections and charge off accounts from the total balance. Medical collections and charge off accounts must be clearly identifiable on the credit report.
- If the remaining outstanding balance of collection accounts are equal to or greater than $2,000, any of the following actions will apply:
  - Payment in full of all collection accounts at or prior to closing.
  - Payment arrangements are made with each creditor for each collection account remaining outstanding. A letter from the creditor or evidence on the credit report is required to validate the payment arrangements. The agreed upon monthly payment for each outstanding collection account will be included in the borrower's DTI ratio.
  - In the absence of a payment arrangement, the lender will utilize in the DTI ratio a calculated monthly payment. For each collection utilize 5% of the outstanding balance to represent the monthly payment.

For additional information refer to **HB-1-3555, Chapter 10**.

Section 14 Income and Employment

The adjusted income of all adult household members may not exceed 115% of the U.S. median income.

An **income eligibility tool** is available from the USDA. Once the required adult household member data has been completed, refer to the Maximum Adjusted Household Income under Section 502 Guaranteed Rural Housing Loan Program.

The following sources are included in repayment income and annual income for eligibility for an RHS guaranteed loan:

- Gross amount of wages, salaries, overtime pay, commissions, fees, tips, bonuses and other compensation for personal services of all adult members of the household.
- Income from all adult household members must be fully documented.
- Net income from the operation of a farm, business or profession, interest, dividends and other net income of any kind from real or personal property. See rental income below.
- Payments for social security, annuities, insurance policies, pensions, unemployment, workers compensation, alimony and/or child support and other types of periodic receipts
- All regular pay, special pay and allowances of a member of the armed forces who is the borrower or spouse whether or not that family member lives in the unit.

See **HB-1-3555, Chapter 9** for a complete definition of Annual Income.

Rental income must be included in the annual income calculation; however, it may only be used to qualify the borrowers from a DTI ratio perspective when the borrowers have owned the property for at least 2 years and can document receipt of rental income with 2 years of tax returns and a current lease agreement.

The following sources **are not** included in annual income but will be considered in determining the repayment income (ability to repay the loan):

- Earned income of persons under the age of 18 unless they are a borrower or a spouse of a member of the household
- Payments received for the care of foster children or foster adults
- Amounts granted for or in reimbursement of the cost of medical expenses
- Earnings of each full-time student 18 years of age or older, except the head of household or spouse, that are in excess of any amount determined pursuant to section 501(b)(5) of the Housing Act of 1949, as amended
- Temporary, nonrecurring, or sporadic income (including gifts)
- Lump sum additions to family assets such as inheritances; capital gains; insurance payments under health, accident, or worker's compensation policies; settlements for personal or property losses; and deferred periodic payments of supplemental security income and Social Security benefits received in a lump sum
- Any earned income tax credit
- Adoption assistance in excess of any amount determined pursuant to section 501(b)(5) of the Housing Act of 1949, as amended
- Amounts received by the family in the form of refunds or rebates under State or local law for property taxes paid on the dwelling
- Amounts paid by a State agency to a family with a developmentally disabled family member living at home to offset the cost of services and equipment needed to keep the developmentally disabled family member at home
- The full amount of any student financial aid
- Any other revenue exempted by a Federal statue; a list of which is available from any Rural Development office.

Adjustments to reduce annual income include **$480** for each minor child, full time student or a disabled member of the family. **$400** may be deducted from annual income for each family member over 62 years of age. An additional deduction may be calculated for certain expenses when added together exceed 3% of gross annual income.

4506-C:

Processed 4506-C transcripts for the previous 2 tax years must be reviewed and approved for each adult (age 18 or older) member of the household, regardless of income source, prior to closing/funding. 4506-C forms for the previous 2 tax years must also be signed by all adult household members at closing. Full time students age 18 and up that are not the applicant, co-applicant, or spouse of an applicant are not required to sign the 4506-C or have transcripts provided.

If the IRS returns “no transcripts available” for the time period requested, proof of extension and the most recent years' IRS transcripts available, as determined by the GUS certificate, are required.

When unable to obtain transcripts from the IRS for an applicant or required household member, document the correspondence to and from the IRS in the permanent loan file to support the omission. “Failure to file” tax returns when legally required to do so is not an eligible explanation. The asset statements must be documented and reviewed to ensure no errant deposits are identified that may be attributed to additional income sources.

Section 15 Qualifying Ratios

Debt Ratios:

- The typical maximum DTI ratios for USDA loans are 34/41%.
- Waivers above a PITIA ratio of 34% are not permitted. Total debt ratio may exceed 41% if it is determined that strong compensating factors demonstrate the household has higher repayment ability. Refer to **HB-1-3555, Chapter 11** for additional information on acceptable debt ratios and compensating factors.
- Debt ratios exceeding 34/41% are allowed with a GUS Accept/Accept with Full Documentation finding. Debt ratio waivers are not required for loans receiving an Accept finding in GUS.
- GUS Refer, Refer with Caution and manually underwritten files are not eligible for debt ratio exceptions if there is not one applicant with a validated score using traditional tradelines on the credit report, or if the file requires non-traditional credit tradelines.

Installment Accounts:

- Accounts that will be paid in full through a specified number of fixed payments such as auto, personal, secured/unsecured, etc. must have the monthly payment included in the debt ratio.
- If ten or less months of repayment remains per the credit report, creditor verification, etc., the monthly installment debt may be excluded if the payment does not exceed five percent of the monthly repayment income.
- Installment debt may be paid down to ten months or less of remaining debt and excluded from the debt ratio.

Student Loans:

For outstanding student loans, regardless of the payment status, one of the payments below must be used in the underwriting decision:

- The payment amount reported on the credit report or the actual documented payment, when the payment amount is above zero; or
- One half (.50) percent of the outstanding loan balance documented on the credit report or creditor verification, when the payment amount is zero.
- Co-signed student loans may be excluded when the non-borrower obligated party has made 12 months payments as agreed prior to the application date.

Mortgages – No Release of Liability:

- Mortgage liabilities disposed of through a sale, trade or transfer without a release of liability (i.e., borrower remains on the promissory note) must be included in the total debt ratio unless evidence can be obtained to confirm the remaining party/new owner has successfully made the payment for the previous 12 months prior to loan application.
- Evidence may be reported through the credit report or verification from the creditor/servicer to document the payment history has been current for the 12 months prior to loan application.
- If there are late payments in the previous 12 months prior to loan application, the full mortgage obligation must be included in the monthly debt.

Mortgages – Divorce:

- In the case of a divorce, the lender must obtain a copy of the legal separation agreement or divorce decree to document the remaining party/new owner responsible to pay all mortgage debts from the effective date of the decree forward.
- To exclude the mortgage debt, the lender must document the previous 12 months have been paid as agreed prior to loan application through the credit report or verification from the creditor/servicer.
- If there are late payments in the previous 12 months prior to loan application, the full mortgage obligation must be included in the monthly debts.

Refer to USDA **HB-1-3555, Chapter 11** for additional scenarios involving borrower liabilities and their respective requirements.

Automobile Allowances and Expense Account Payments:

- An automobile or allowance will not cancel out a monthly debt for an automobile or expense loan/debt.
- The full monthly payment(s) due must be included in the monthly debt.
- Refer to **HB-1-3555, Chapter 9** for automobile and expense allowance income guidance.

Section 16 Down Payment / Gifts

Down Payment:

Down payment is not a requirement of this program; however, if the borrower is making a down payment on a purchase transaction, the source of funds must be documented.

Gifts:

Gifts are acceptable from someone who is not an interested party to the transaction. The gift may come from a family member. A fully completed gift letter stating that no repayment of the gift is required must be provided. Evidence of funds must be included in the loan file.

For additional information refer to USDA **HB-1-3555, Chapter 9**.

Section 17 Interested Party Contributions

An amount of 6% of the sales price can be contributed towards all closing costs.

Section 18 Reserves

Assets and cash reserves are not required for the USDA program; however, any asset information entered into GUS must be fully documented.

The amount of liquid assets listed in GUS will be the lesser of the 2-month average balance or the actual balance as reported on the most recent statement.

Section 19 Geographic Restrictions

All properties must be located in a designated rural area as designated by the RD office. Plaza state restrictions are identified here.

Hawaii:

- Properties in Lava Zones 1 and 2 are not eligible.

Kansas:

- Additional requirements apply for properties located in the State of Kansas with LTVs greater than 100%. Refer to Plaza's **Geographic State Restrictions**.

Massachusetts: Title V requires dwellings with individual sewage disposal systems, new and existing, be inspected by a DEP approved inspector and, where repairs are indicated, be repaired prior to closing for all purchase transactions.

Texas: For properties located in Texas, the following restrictions apply:

- All improvements must be performed by a third-party builder.
- Borrower provided materials are not allowed.
- Disclosures must be delivered to the borrower at least 1 day before closing.
- All closing documents must be delivered to the borrower not later than 1 business day before closing.
- The builder's contract must be signed by all owners and spouses.
- The builder's contract must be signed and closing must occur at the lender's office, a title company or an attorney's office.
- The builder's contract must not be signed before the 5th day after the written application.
- The builder's contract may be rescinded within 3 days after all parties have signed.
- No materials may be furnished or labor performed before the 3-day rescission period expires.
- A 10% statutory retainage must be withheld from each advance to cover any claim notices from subcontractors or suppliers. The entire retainage, representing 10% of construction costs, will be retained for 30 days after final completion. Subcontractors and suppliers have only 30 days after completion to notify the borrower of nonpayment claims.
- Additional monies requested for cost and upgrades are secured under the builder's contract only if they are evidenced by change orders signed by both parties. Any modification agreement to increase the loan amount must have original change orders attached.
- Subject property must be a Texas homestead.

Additional documents for Texas USDA Renovation:

- Texas Property Code 53.255 Disclosure
- Builder's Note
- Builder's Contract – signed by the builder and all owners and their spouses before any material is furnished or labor is performed.
- Texas Notice of Right to Cancel the Builder's Contract (3-day rescission) required on purchases.
- Texas Home Improvement Certification from originating lender
- Renewal and Extension Exhibit to the Deed of Trust, describing the lien created by the Builder's Contract.
- Borrower's Acknowledgement of Construction of Compliance Procedures
- List of subcontractors and suppliers
- Texas Disbursement Authorization
- Texas Disbursement Statement (Draw Request)
- Affidavit of Commencement
- Affidavit of Completion
- Lien Waiver
- Final Bills-Paid Affidavit

Section 20 Max Financed Properties

Only one USDA loan is allowed per borrower and co-borrower. The borrower may not own any other property, including property owned free and clear, unless:

1. The additional property is sold prior to or concurrently with the purchase of a new home.
2. The additional property is not structurally sound or no longer meets the applicant's needs. This must be sufficiently documented in the loan file. Example: A disabled borrower that owns a property that is no longer suitable to their needs.
3. The borrower must be able to qualify with the full PITIA payments for each property. Rental income can only be used to qualify with a 2-year history of receipt.
4. The borrower may own only one additional property.

Refer to **HB-1-3555, Chapter 8** for USDA requirements when the borrower owns more than one property.

Maximum Loans/Maximum Exposure:

Rural housing loans are limited to one loan per borrower and co-borrower.

When the subject loan is a USDA loan, the borrower may not have any other Plaza loans.

Section 21 Property Insurance

Hazard insurance coverage must be equal to at least the principal balance of the new loan or replacement cost of the as improved value of the home after renovation.

Flood insurance is required on all properties located in a Special Flood Hazard Area (SFHA). New or proposed construction in a SFHA is generally ineligible. Refer to **HB-1-3555, Chapter 12 for requirements**.

At the completion of renovation work, the borrower must provide a certification from the insurance company regarding the adequacy of the property insurance. The certification must confirm that the coverage has been increased, if necessary, to comply with insurance coverage requirements.

Up-Front Guarantee Fee & Annual Fee:

The date of issuance of the Conditional Commitment by the local/State RD Office (not the loan closing date) determines the fee schedule for loan requests.

- Up-Front Guarantee Fee: 1.000%
- Annual Fee: .350%

The Guarantee Fee may be calculated in two ways depending on whether the fee will be financed:

Guarantee Fee Not Financed	Guarantee Fee Financed
Multiply the loan amount by 1.000% and round to the nearest cent. Example: $100,000 x .01 = $1,000	Divide the base loan amount from the MMW by .990 and round to the nearest cent. Multiply that number by .01 (1%) and round to the nearest cent. Example: $100,000 ÷ .990 = $101,010.10 • (actual result of $101,010.1010 is rounded to $101,010.10) $101,010.10 x .01 = $1,010.10 • (actual result of $1,010.1010 is rounded to $1,010.10) Financed Guarantee Fee = $1,010.10

Refer to the USDA **webpage** for Guarantee Fee and Annual Fee calculators and information.

Annual Fee:

All USDA loans are subject to an annual fee in addition to the up-front guarantee fee. The annual fee is a percentage of the scheduled amortized unpaid principal balance determined by Rural Development.

The annual fee is .350% of the unpaid principal balance. The annual fee is calculated and collected as follows:

- The initial fee, for the first year of the loan will be determined and calculated based on the loan amount. For remaining years of the loan, the annual fee will be charged on the scheduled amortized unpaid principal balance of the loan, not the actual UPB.
- The annual fee will be included as part of the borrower's monthly PITIA payment.

  Example: $101,010.10 Note loan amount x .350% = $353.54 / 12 = $29.46. $29 is the monthly annual fee payment.
  Plaza will establish an escrow account to collect the annual fee from the borrowers on a monthly basis.

Note: The annual fee is a life of loan fee and will continue to be charged until the loan is paid in full.

USDA has provided an **Annual Fee Calculator** to assist in calculations.

Section 23 Temporary Buydowns

Temporary Buydowns are eligible subject to the following:

- 2-1 and 1-0 buydowns are offered
- Purchase transactions only
- Qualify at the note rate
- Funds may come from the seller or other eligible interested party
    - Interested Party Contribution (IPC) limits apply
    - Seller paid buydowns must be documented on the sales contract or applicable legally binding document. When a legally binding document other than the sales contract is used to document the Interested Party Contributions, a copy of this document must be provided to the assigned Appraiser.
    - The amount and source of all IPCs must be submitted to GUS as applicable
- Buydown Agreement required and will print with Plaza loan docs
- **Plaza's Buydown Calculator** can be used to estimate the buydown payment and total contribution amount

Section 24 Escrow Accounts

Escrow/Impound accounts are required for property taxes and hazard insurance on all loans.

Section 25 Appraisal & Property Inspections

A full appraisal is required. The appraisal report must support the "As Improved" market value of the property with the assumption that all repairs are completed. For Standard Renovations, a copy of the original Consultant work write-up and the contractor's cost estimate (including reserves) will be provided to the appraiser. For Limited Renovations, the appraiser will be provided the contractor's cost estimate.

- Any appraiser required or recommended repairs must be added to the plans and specs
- Following completion of the renovation work, the borrower must obtain a certification of completion stating that the renovation was completed in accordance with the submitted plans and specs. The certification must be documented on the Appraisal Update and/or Completion Report (Form 1004D).

The appraiser must be on the FHA approved appraiser list and be an FHA Roster appraiser, although an FHA case number is not required. The appraisal must be prepared in accordance with Single Family Housing Policy Handbook (SF Handbook; HUD Handbook 4000.1), or as superseded by HUD and the appraiser must certify that the subject property meets the requirements of HUD Handbook 4000.1. Photos included in the appraisal report must also meet FHA requirements. Refer to **HB-1-3555, Chapter 12**.

If the original appraisal report will be more than 120 days old as of the Note date, a re-inspection by the appraiser is required. An appraisal may be up to 240 days old if a re-inspection is obtained after 120 days. The appraiser must use the Appraisal Update and/or Completion Report (Form 1004D or 442) which must include all of the following:

- A determination on whether or not the property value has declined.
- Evidence that there has been, at a minimum, an exterior inspection of the property.
- Notes on any market changes

If the appraiser determines that the value has declined, a new appraisal and loan must be re-underwritten using the new value.

Transferred Appraisals:

Plaza will accept transferred / assigned appraisals from the original transferring lender when all of the requirements outlined in the Appraisal Policy in Plaza's **Credit Guidelines** are met.

Pest/Termite Inspections:

Pest/termite inspections are required as follows:

- If the purchase contract requires an inspection.
- If the appraiser or home inspector requires an inspection.
- If state law requires one. The local RD office will condition for this when necessary.
- Items to be cleared prior to closing will be based on the local RD office requirements.

Septic Inspections:

The septic system must be free of observable evidence of failure.

An FHA roster appraiser, government health authority, licensed septic professional, or qualified home inspector may perform the septic system evaluation. An FHA roster appraiser or qualified home inspector may require an additional inspection due to their observations. All septic tanks must meet HUD guidelines and/or State codes.

Well Inspections:

A water quality analysis is always required. The local health authority or state certified laboratory must perform the water quality analysis. Evidence must be provided that the water quality analysis meets state and local standards.

The water analysis must be dated no greater than 180 days at time of loan closing.

Shared Wells:

Shared wells are allowed as long as they meet the requirements of HUD Handbooks 4150.2 and 4905.1, and also have been approved by the State Department of Health or comparable reviewing and regulatory agency. Written verification must be obtained from the regulatory agency that the well complies with the Safe Drinking Water Act and the Clean Water Act (see **HB-1-3555, Chapter 12**). There is a limit of four homes per shared well.

Section 26 Eligible Loan Costs

Cost of Improvements: Loan proceeds must be used for the acquisition of the land and dwelling plus the amount of **eligible repairs** and the eligible fees and loan costs listed below. Loan costs may be included in the loan amount subject to the maximum loan to value and must be reasonable and customary.

Eligible Fees and Costs:

- Renovation Hard Costs
- Contingency reserves required for all transactions: 10% when utilities are on, 15% when they are off (see **Section 28**)
- Principal, Interest, Tax and Insurance payments for up to six months for reserves if the dwelling is not habitable at the time of closing (see **Section 27**)
- Appraisal
- Survey
- Permits
- Inspection/Consultant fees
    - Draw Inspection Fee:
        - Limited Renovation: 2 x $150
        - Standard Renovation: HUD Consultant will set the fee amount (disclosed in WWU)
    - HUD Consultant Work Write Up/Plan Review Fee:
        - Limited Renovation: Not required, but if obtained, HUD Consultant will set the fee amount (disclosed in WWU)
        - Standard Renovation: HUD Consultant will set the fee amount (disclosed in WWU)
- Architecture or design fees
- Engineering fees
- Title updates
    - Limited Renovation: $150 total
    - Standard Renovation: $100 per draw
- Project review fee (Plaza does not charge this fee)
- Builder acceptance/review fee (Plaza does not charge this fee)
- Other reasonable and customary USDA allowable closing costs (non-renovation related) as defined in Chapter 6 of Handbook HB-1-3555, as long as the costs do not exceed the maximum loan to value described in Chapter 7 of HB-1-3555.

HUD Consultant Fees:

- The lender is not responsible to the HUD Consultant for fees owed by the borrower.
- The fee(s) charged by the HUD Consultant can be included in the mortgage as a part of the cost of rehabilitation.
- For each draw request the lender is required to obtain a compliance inspection **(Form-92051)** stating that the work for that particular draw has been satisfactorily completed.

Section 27 Mortgage Payment Reserves

If the dwelling is not habitable at the time of closing, reserves for principal, interest, taxes and insurance may be established to cover the mortgage payments for up to 6 months or until the home is determined to be habitable by a third-party inspector deemed qualified by the lender during the construction period.

- Allowed on Standard renovation program only. Not allowed on Limited renovation program.
- The amount can be financed in the loan amount if the value will support such financing.
- The reserve is allowed only for the period in which the property is uninhabitable due to the renovations.
- Any remaining reserves will be used to pay down the principal balance on the loan.

Section 28 Contingency Reserve

The purpose of a contingency reserve is to cover required unforeseen repairs that are discovered during the renovation. The contingency reserve is a required renovation cost and is typically financed in the loan amount **(Financed Contingency)**. Alternately, the borrower may bring funds to closing to fund the contingency reserve; however, any assets required to fund the contingency must be documented and verified above the amount required for down payment and reserves **(Borrower Funded Contingency)**.

- The contingency is calculated as a percent of the cost of labor, materials, and soft costs.
- A 10% contingency reserve is required. 15% is required if the utilities are off.
- If contingency reserve funds remain at the completion of renovation, they may be used for making eligible improvements or repairs that are permanently affixed to the real property. Funds may not be used to purchase personal property.
  - All work described in the plans and specifications have been completed and the contingency reserve funds has been reduced by any items that arose related to the repairs
  - Any work paid from contingency funds must be approved by Plaza in advance, documented as completed and having improved the real property.
  - Documentation for completed work must include paid receipts from the borrower's own funds, and inspections of the additional work by the appraiser.
- Unused Financed Contingency funds will be applied to the outstanding renovation mortgage balance once the renovation work has been completed and the certification of completion has been obtained.
- Unused Borrower Funded Contingency funds will be refunded to the borrowers once the renovation work has been completed and the certification of completion has been obtained.

Section 29 Calculating the Mortgage Amount and USDA Renovation Max Mortgage Worksheet

Maximum Loan / LTV:

The maximum loan amount may not exceed the cost of acquisition plus the cost of repairs up to the as-improved market value, plus the guarantee fee, if financed (the total note loan amount may exceed 100% of the as improved market appraised value only by the amount of any financed guarantee fee). This applies only to loans for which all or a portion of the guarantee fee is being financed into the loan. Refer to the **Calculating the Guarantee Fee** section. Note: Reasonable and customary USDA eligible closing costs are allowable to be included with other soft costs as long as the costs do not exceed the maximum LTV (100% of the appraised value).

Plaza's **USDA Renovation Maximum Mortgage Worksheet** must be complete on every loan.

Pro-rated taxes:

When the borrower is being charged for the full amount of the tax installment payment and the seller will be reimbursing the borrower for their portion of the taxes owed up to the date of close of escrow, USDA will only allow a pro-rated tax credit up to the amount the borrower put into the transaction from their own funds. Examples include, earnest money deposits, upfront appraisal and credit report fees. All upfront fees paid by the borrower must be clearly documented as paid by the borrower with either copies of cancelled checks or credit card receipts showing the fees were paid directly by the borrower. A cash credit to the borrower that exceeds the amount shown on the HUD-1 as paid by borrower in earnest money and/or in advance fees shown as (POC) is not allowed.

Example of an Acceptable Cash Credit: Purchase transaction with a close of escrow date of 2/5 and the tax installment is due now. The borrower will be charged the full amount for this installment and will receive a credit from the seller, for Jan 1st through Feb 5th in the amount of $350. The net funds due at closing from borrower on the HUD-1 shows $650. The borrower contributed an earnest money deposit of $1000 (cancelled check in file). No upfront fees were paid by borrower by check or credit card. Since the earnest money deposit exceeds the pro-rated tax credit, this credit is acceptable to USDA.

Example of an Unacceptable Cash Credit: Purchase transaction with a close of escrow date of 2/5 and the tax installment is due now. The borrower will be charged the full amount for this installment and will receive a credit from the seller, for Jan 1st through Feb 5th in the amount of $1350. The net funds from borrower on the HUD-1 shows cash back to borrower of $350. The borrower contributed an earnest money deposit of $1000 (cancelled check in file). No upfront fees were paid by borrower by check or credit card. Since the earnest money deposit is less than the pro-rated tax credit, the amount of cash to the borrower must be reduced by $350 and any overage must be applied to principal. The borrower may only receive $1000 cash back on the HUD-1 closing statement.

Section 30 Eligible Improvements

Standard renovation program – structural repairs and repairs exceeding $35,000:

- Repairs may be structural or non-structural
- There is no maximum dollar amount for repairs up to the maximum loan amount
- There is no required minimum repair amount

Limited renovation program – non-structural repairs up to $35,000:

- Non-structural repairs only and the home must be considered habitable at the time of closing
- Maximum of $35,000 in eligible repairs and renovation fees
- There is no required minimum repair amount

Eligible Improvements:

- Removing safety and health hazards
- Making the dwelling accessible to persons with disabilities
- Repair or installation of septic system and water wells
- Additions, structural alterations or reconstruction of an existing dwelling
- Addition of a garage (attached or detached)
- Modernizations (kitchens and bathrooms, interior floor cover, exterior siding, etc.)
- Installation of energy conservation or weatherization features
- Repairs to existing swimming pools, hot tubs, or saunas
- Repairs to accessory dwelling units.

Ineligible Improvements:

Standard Renovation	Limited Renovation
• Properties where the foundation has been demolished or where only the footings remain, are not eligible • Converting structures to SFH dwelling (barns, schoolhouses, multi-units, etc.) • Alterations that allow income-producing features • Repairs or improvements to common space areas (community meeting rooms, playgrounds, etc.) • Installation of new inground swimming pools, hot tubs or saunas • Installation of luxury items • Repairs/costs cannot include items such as furniture, electronic and home entertainment equipment or other personal items • Repairs that cannot be completed within 6 months • Foundation up construction. Moving a house from another location onto the subject property. • Improvements or changes that were not approved prior to the start of the work. • Materials or work performed prior to the first draw disbursement • Completion of an already underway construction project. • Improvements that result in commercial use or are commercial in nature. • Oil Tanks, repairs or replacement • Construction of outbuildings (garages can be constructed if one does not exist, it is common and typical and not a property over improvement) • Free standing ADUs	• Any type of structural repairs including but not limited to: load bearing walls, construction of, adding egress windows or repairs to foundation, structural roof elements and trusses, enlarging windows or doors, post and pier or flooring support joists. • Repairs or improvements to common space areas (community meeting rooms, playgrounds, etc.) • Installation of new inground swimming pools, hot tubs or saunas • Installation of luxury items • Repairs/costs cannot include items such as furniture, electronic and home entertainment equipment or other personal items • Repairs that cannot be completed within 6 months • Materials or work performed prior to the first draw disbursement. • Completion of an already underway construction project. • Improvements that result in commercial use or are commercial in nature. • Changes to the number of dwelling units • Oil Tanks, repairs or replacement

Luxury Items include (but are not limited to):

- Exterior fireplaces and kitchens
- BBQ Pits
- Outdoor Spas
- Bath House
- Tennis Court
- Satellite Dish
- TV Antenna
- Gazebo
- Dumbwaiters

Unpermitted Work:

When unpermitted work is discovered in the existing dwelling, the owner and/or contractor must contact the appropriate code enforcement office to obtain retroactive permitting or devise a plan to permit the previous construction. The borrower must obtain 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.

Section 31 Materials Draw and Borrower Provided Materials

Materials Draw may be disbursed at closing in the following circumstances:

- Materials costs for up to 50% of materials costs for items not yet paid for by the Borrower or contractor where a contract is established with the supplier (must document) and an order is placed with the manufacturer for delivery at a later date.
- Draw not to exceed the lessor of 50% of the materials or $15,000.
- The contractors cost estimate must clearly document the exact materials and costs for which materials draw funds are to be advanced.
- Checks will be made payable to the borrower and contractor.
- A materials draw is not included in the allowable number of draws (max 5 draws).

Section 32 HUD Consultant & Work Write Up (WWU)

HUD Consultant:

Standard Renovation requires the use of a HUD approved HUD Consultant. The Consultant will perform a thorough inspection of the property and prepare a detailed Work Write-Up (WWU) of the work to be repaired and include estimated costs for labor and materials and associated fees that are customary and typical for the area. This write-up will be used to obtain cost estimates from contractors. A borrower may use a HUD Consultant on a Limited Renovation but it is not required. If a HUD Consultant is used on a Limited Renovation the cost may be included in the loan amount, LTV permitting.

- A written agreement must be obtained between the HUD Consultant and the Borrower that fully explains the services to be performed and the fees to be charged for each service. The written agreement must disclose to the Borrower that any inspection performed by the Consultant is not a "Home Inspection," as detailed in the disclosure **form HUD-92564-CN, *For Your Protection Get a Home Inspection***.
- All HUD Consultants must be HUD approved. Refer to HUDs website for a list of **approved HUD Consultants**.

Work Write Up (WWU):

- Required on Standard Renovation only.
- Prepared by the HUD Consultant.
- The WWU must be provided in standardized HUD format with required categories and summary in addition to the contractor's cost estimate (bid).
- The WWU and cost estimate must match in the scope of work for the project confirming that all improvements and repairs have been addressed and costs are aligned to current market costs.
- The WWU and cost estimate must match exactly in total cost of work or no greater than a $500 variance.

Section 33 Cost Estimate (Contractors Bid / Plans & Specifications of Repairs)

The borrower must obtain a detailed and fixed cost estimate that fully describes the work being performed to include itemized costs for labor and material. The cost estimate must identify the borrower's name, subject property address, contractor's name, contact information and license number, where applicable. For Limited Renovation, the cost estimate must indicate that the repairs are non-structural.

Cost Estimate (Bid/Plans & Specifications) requirements:

- Must be prepared by a registered, licensed, or certified general contractor or renovation consultant.
- Must be provided on contractor's letterhead or on Plaza's bid template form
- Fully describe, detail and itemize the specific work that the contractor agrees to perform for the borrower.
- Include quality and quantity of materials, exact location of work and labor and materials cost separated for each of the repairs.
- Include an itemized listing of all permits and corresponding costs.
- Include a draw schedule; an itemized description establishing the schedule for completing each stage of work and corresponding payments (including both the start and job completion dates). Include all contractors and borrower's information, address, phone and email.
- Executed by both the contractor and the borrower.

Plaza's Contractors Bid Template FM-433 is recommended

Standard Renovation only:

Architectural exhibits and or a structural engineer reports (Plaza to determine at time of project review) will also be required if an addition, structural reconfiguration, load bearing changes, major structural or foundation work are part of the proposed renovation and will be required to be provided in the loan file.

Section 34 Contractor Requirements

The contractor is chosen by the borrower. However, Plaza must be able to determine that the contractor is qualified, properly registered (with local issuing authority) and experienced for the work being performed.

Construction contractors or builders of homes financed with a USDA Renovation loan must have and verify the following:

- Two or more years of experience building and constructing all aspects of single family dwellings similar to the type of project being proposed.
- A completed **USDA Renovation Contractor Profile and Reference Form** is required.
- A minimum of three references of similar work in cost and nature completed within the last 12 months. The Originator must also sign the Contractor Profile report stating the contractor's references have been verified.
- Evidence of a state-issued construction or contractor license, as required by state law or local law.
- Evidence of commercial general liability insurance with a minimum coverage of $500,000.
- The builder/contractor must have an acceptable credit history being free of open judgments, collections or liens related to previous construction projects. The builder/contractor must not have a previous felony criminal record. A background check will be performed by Plaza. Plaza will obtain this information by such means as an individual credit report, business report, information published by the Securities and Exchange Commission (SEC), State Corporation Commission (SCC), LexisNexis, or Dun and Bradstreet.
- The borrower may not act as a contractor; self-help loans are not allowed.
- A current W9.
- Document a demonstrated financial ability to sustain projects.
- If mold abatement, lead-based paint abatement, or radon abatement, the contractor must be licensed under those specific trades.
- The borrower is allowed up to three (3) sub-contractors on a Limited Renovation and one General contractor on the Standard Renovation.

Renovation Contract:

- A fixed price contract is required. Allowances are not permitted. The **USDA Renovation Homeowner/Contractor Agreement** contract is the preferred contract.
- The total amount in the construction contract must match the total cost breakdown of the cost estimate.
- The contract must have a start and end date with a maximum term of 6 months.
- The contract must be signed by the contractor and borrower(s).
- The contract must be referenced in and made part of the Security Instrument.
- The contractor must agree to indemnify the borrower for all property losses or damages caused by its employees or sub-contractors.

Note: Specific federal requirements exist for contractors working on housing or child-occupied facilities built before 1978. Under these requirements, contractors need to complete training and obtain a Lead Based Paint Renovation license before they can bid on renovation projects involving pre-1978 housing and child-occupied facilities.

Section 35 Self-Help

Self-Help is not allowed

"Self-help" is defined as the borrower performing some or all of the work items.

Section 36 Renovation Period

- Renovation work must be completed within 6 months after closing, if not complete limited contract extensions may be considered on a case-by-case basis.
- Consideration should be given to cold climate and weather-related delays that could impact the rehabilitation period.
- Renovation work extensions will only be granted if the loan payments are current.
- Borrowers must provide adequate documentation to request rehabilitation extensions.
- Renovation work must begin within 30 days of closing. If work has not started within 30 days, stops for more than 30 consecutive days, or has not been completed within the established timeframe or extended Plaza approved timeframe, Plaza may consider the loan to be in default.
- Plaza to approve in advance any work/project extensions.

Section 37 Draw Process & Lien Waivers

The following may be disbursed at closing and all subsequent draws will be disbursed according to the remaining draw process:

Standard Renovation:

- Permit fees (permits must be obtained before work commences)
- Prepaid architectural or engineering fees
- Prepaid Consultant fees
- Materials draw, **see Section 31**

Limited Renovation:

- Permit fees (permits must be obtained before work commences)
- 50% of the total cost of the repairs, handled through escrow/title

Remaining Draw Process:

- Plaza will handle all project inspections and all remaining rehabilitation disbursement.
- Standard Renovation allows up to a maximum of 5 draws.
- Limited Renovation provides for the release of the final 50% of renovation funds in a single draw after all work has been completed.
- Draws will be advanced after work has been complete and verified by an inspection.
- Draws will not be approved for work that is not yet complete, including materials not yet installed.
- Lien Waivers or title insurance endorsements must be provided at the time of each draw.
- The borrower must provide written approval of payment prior to each draw payment. Funds will be made available via a two-party check payable to the borrower and contractor.
- A 10% percent holdback is required on each draw release. The total of all holdbacks may be released only after the final inspection and issuance of the Final Release Notice is received from borrower, HUD Consultant, and inspector as applicable.
- Plaza will set up an interest-bearing repair escrow account which is insured by the FDIC, to fund the remaining disbursement. Any interest earned is applied as a principal reduction to the loan.

Project Completion and Final Draw/Final Release Notice:

- At the completion of construction, the borrower will provide the **Homeowner's Notice of Work Completion** to Plaza indicating that the work is satisfactorily complete and requesting the final inspection.
- Plaza will order the appraiser's final inspection.
- If an occupancy certification is required, this must be provided prior to the issuance of the Final Release Notice.
- A final endorsement to the title policy clear of all liens will be obtained
    - When the property is located in a state in which contractors', subcontractors', or materialmen's liens have priority over mortgage liens, Plaza will require all necessary lien releases or take any other action that may be required to ensure that the title to the property is clear of all liens and encumbrances.
- After satisfactory receipt of the above items, Plaza will issue a Final Release Notice indicating that all work has been satisfactorily completed and thus authorizing the release of all monies* remaining in the Rehabilitation Escrow Account, including all holdbacks from previous draws.
    - *Note: If required to protect the priority of the security instrument, Plaza may retain the holdback, for a period not to exceed 35 days (or the time period required by law to file a lien, whichever is longer), to ensure compliance with state lien waiver laws or other state requirements.
- A copy of the final inspection report and Final Release Notice will be provided to the borrower.

Borrowers are strongly encouraged to be working directly and closely with our Reno Servicing department with questions, change orders and draw requests on their funded Renovation loan.

Customer Service / Loan Servicing
Phone: 1-888-807-2620, option 3
Fax: 1-858-332-1861
Email: **renoservicing@plazahomemortgage.com**

Section 38 Change Orders

Any change orders must be pre-approved by Plaza prior to the commencement of any change related work. Changes that require prior approval include but are not limited to the following:

- Changes made to the project, contractor or HUD Consultant
- Rehabilitation period extensions
- Use of Contingency funds

Additional Change Order Information

- Proposed changes should not affect the scope of the project and/or affect the appraised value
- Change Orders may not be accepted until a percentage of the project is complete
- The borrower(s) will be responsible for any costs related to change orders that exceed available funds in the contingency reserve account, or for ineligible loan purposes that occur post loan closing. The borrower will be required to pay for these changes out of pocket.

To request a change, submit to Plaza Customer Service/ Loan Servicing the **USDA Renovation Change Order Form** for approval.

Section 39 Renovation Forms and Closing Documents

Standard loan instruments are used in addition to the required Renovation forms or documents listed below. Models can be found on Plaza's and HUD's website.

Required forms for all USDA Renovation loans:

- **USDA Renovation Max Mortgage Worksheet**
- **USDA Renovation Borrower's Acknowledgement**
- **Contractors Bid/Cost Estimate**
- Contractor **W-9** Form – completed by contractor(s)
- **Sales Contract.** The sales contract must include a provision that the Borrower has applied for USDA Renovation financing, and that the contract is contingent upon mortgage approval and the Borrower's acceptance of additional required improvements as determined by the Mortgagee. An addendum to the contract is acceptable.

Standard Renovation forms required in addition to those listed above:

- **USDA Renovation Homeowner/Contractor Agreement(s)**
- **USDA Renovation Contractor Profile Report**
- HUD Consultant **W-9** Form – completed by consultant
- HUD Consultant Write-up (WWU)
- **Materials Draw Request**

Limited Renovation forms required in addition to those listed above:

- **USDA Renovation Homeowner Contractor Agreement addendum**

Closing Forms:

- **USDA Rehabilitation Loan Agreement**
- **Rehabilitation Loan Rider.** A Rehabilitation Rider is a required modification to the security instrument.
- USDA Renovation Security Instrument modification. The following language should be typed in the Security Instrument: "Provisions pertaining to releases are contained in the Rehabilitation Rider which is attached to this mortgage, and made a part hereof."