


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 their 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 a household member with a disability. Attachment 12-A provides a summary of the differences between Section 504 loans and Section 504 grants, Attachment 12-B provides the differences between Section 502 and Section 504 loans, Attachment 12-C provides a processing and closing checklist, Attachment 12-D provides a checklist for assessment of an existing dwelling, and Attachment 12-E provides items included with a complete application.

 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 a household member with a disability.

 **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);
- 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);
- Construct new decks (existing decks may be repaired if a safety hazard exists);
- Install concrete or asphalt driveways, although improvements to make the dwelling accessible and useable for a household member with a disability is an eligible purpose; or
- Landscape.


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.



Permanent Foundation

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.

12.3 APPLICATIONS [7 CFR 3550.104]

Applicants interested in the 504 Program will be provided Form RD 410-4, Uniform Residential Loan Application, Form RD 3550-1, Request for Information, Form RD 3550-4, Employment and Asset Certification, and Attachment 12-E checklist. Applications received must be date stamped on page 8 of Form RD 410-4 upon receipt.

Applications must be reviewed within three business days of receipt to confirm the application is complete. The Loan Originator will send Handbook Letter 11 (3550), Request Information, to the applicant requesting any missing items and stating that their application will be withdrawn if the missing information is not received within 15 days (30 days may be allotted if the applicant is waiting for repair bid(s)). A complete Section 504 application includes applicable items listed on Attachment 12-E checklist.

The Loan Approval Official will make a determination of eligibility within 30 days of receiving a complete loan application. When funding is available, a pre-construction conference should be scheduled within 30 days of an eligibility determination and loan/grant approval. Attachment 12-F is utilized to document the pre-construction conference. If funding is not available send Handbook Letter 3 (3550), Waiting Period, to the applicant. The waiting period can be estimated using an average of the previous two year allocations.

Section 504 applications requesting assistance to remove health or safety hazards should receive priority processing. Veteran’s preference described in Paragraph 3.13 C. should be used in cases where multiple applications with the same priority preference are received on the same day. Complete applications will be processed in the order received using the following priority method:

First Priority: Health and safety hazards such as unsafe water, failed septic system, lack of heat, and those affected by natural disasters who are ineligible for other federal assistance. **Second Priority:** Removal of other health and safety hazards. **Third Priority:** Subsequent applications to an existing borrower. **Fourth Priority:** All other requests that do not meet the above criteria.

A property evaluation may be conducted utilizing online resources to view the property and real estate tax assessments to determine the condition and value of the property. If the condition of the property cannot be determined using online resources, an on-site visit is documented with Attachment 12-D, Checklist for Evaluation of Existing Dwelling.

The applicant will provide an adequate number of bid(s) from a qualified contractor(s). The local office must review the bid(s) obtained to ensure costs are reasonable for the area serviced and the number of bid(s) are sufficient. The bid(s) must be detailed to include cost of material, size, quantity and manufacturer. Refer to Paragraph 5.26 for guidance and requirements on minor rehabilitation.

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 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

Applicants receiving grant only funding do not need a credit history evaluation. An applicant with 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 or 504 loan.

For loans, applicants must have a credit history that indicates a reasonable ability and willingness to meet debt obligations. Applicants with a credit score of 620 or higher, do not require Form RD 1944-61, Credit History Worksheet for further documentation. These applicants are considered to have acceptable credit histories except for loan applicants with a significant delinquency described in Paragraph 4.12 A. An applicant with a credit score less than 620 must demonstrate a history of reliable traditional or non-traditional credit using Form RD 1944-61, Credit History Worksheet to conduct the credit analysis.

Paragraph 12.4 Applicant Eligibility [7 CFR 3550.103]

The indicators of unacceptable credit described in Exhibit 4-4 for Section 502 loans can be used to evaluate the applicant's credit history, however, general credit requirements 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 Department of Treasury's Do Not Pay (DNP) portal, as described in Paragraph 4.11. Infile credit reports will be required for applicant(s) with adjusted income greater than 30% of adjusted median income. A Tri-Merge Credit Report (TMCR) is required for 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 non-retirement assets. Non-retirement assets in excess of \$15,000 (or \$20,000 for an elderly household) must be used to reduce the Section 504 request.

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 as supported by a budget. Effective October 1, 2017, a budget is defined by using a maximum Total Debt (TD) ratio of 46%. For applicants 62 years of age or older, the budget is determined by income based eligibility or a three tier TD repayment system as demonstrated in Exhibit 12-1 "Eligibility". Non-taxable income **cannot** be "grossed up" by any percentage for the Section 504 Program.

E. Age and Income for Section 504 Grants

At least one applicant must be 62 or older for a household to qualify for a grant. There is no minimum grant award requirement.

A qualified grant applicant with an adjusted income not exceeding 30% of the adjusted median income (AMI) will be eligible for grant funds for eligible purposes up to the maximum allowable grant limit. Banded income limits (1-4 person, and 5-8 person limits) are not used for this determination.

A qualified grant applicant with an adjusted income greater than 30% of AMI and a TD ratio greater than 46%, will be eligible for 100 % grant funding of eligible grant funds.

A qualified grant applicant with adjusted income greater than 30% of AMI and a TD ratio of 30 - 46% will be eligible for 50/50 combination loan and grant up to 46% TD ratio. To determine eligibility, the Loan Originator must use the following criteria:

1. Is the applicant or co-applicant 62 years of age or older?
 - a. Yes, proceed to the next step.
 - b. No, determine the loan amount according to a TD ratio not to exceed 46%.
2. Does the adjusted income exceed 30% AMI?
 - a. If adjusted income does not exceed 30% AMI, the applicant(s) automatically qualify for a grant.
 - b. If the adjusted income exceeds 30% AMI, proceed to the next step.
3. Determine the applicant(s) TD ratio:
 - a. TD ratio exceeds 46%, the applicant(s) qualify for grant only assistance.
 - b. TD ratio is less than 30%, the applicant(s) qualify for a loan.
 - c. TD ratio is 30 - 46%, the applicant(s) qualify for a combination loan / grant, proceed to the next step.
4. Determine combination loan / grant amount:
 - a. The minimum initial loan amount is \$1,000.
 - b. Combination loan / grant will have equal loan and grant amounts with a TD ratio not to exceed 46%.
 - c. The maximum grant may not exceed the lifetime \$7,500 limit.



Certain circumstances will result in unequal combination loan / grant amounts (e.g. applicants requesting less than \$2,000 or greater than \$15,000).

Exhibit 12-1 Eligibility			
Adjusted Income	Age	TD Ratio	Eligible Amount
Up to 30% AMI	62 or older	n/a	Grant up to \$7,500 Limit
Greater than 30% AMI	62 or older	Exceeds 46%	Grant up to \$7,500 Limit
Greater than 30% AMI	62 or older	30% to 46%	Loan/Grant Combination for equal amounts (minimum \$1,000 loan; maximum \$7,500 grant)
Greater than 30% AMI	62 or older	Less than 30%	Maximum \$20,000 Loan prior to Grant eligibility

Example 1 - Maddie is 82 years old with an adjusted income equal to 38% of AMI. She requested \$7,500 in repair assistance for eligible loan or grant purposes. Her income exceeds 30% AMI and qualifies for Loan/Grant Combination. Her TD ratio is 41%. She is eligible for a \$3,750 loan and \$3,750 grant.

Example 2 - Rowdy is 72 years old with an adjusted income equal to 49% of AMI. He is applying for \$1,500 in repair assistance for eligible loan or grant purposes. His income exceeds 30% AMI and qualifies for a Loan/Grant Combination. His TD ratio is 39%. He is eligible for 50% Loan/Grant Combination. However, he must meet the \$1,000 minimum requirement for initial loans, eligible for a \$1,000 loan and \$500 grant.

Example 3 - Mary is 62 years old with an adjusted income equal to 31% of AMI. She is applying for \$22,000 in repair assistance for eligible loan or grant purposes. Her income exceeds 30% AMI and qualifies for a Loan/Grant Combination. Her TD ratio is only 25%. She is eligible for the maximum \$20,000 loan and \$2,000 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 owner occupied and the applicant's sole and primary residence. The property must be considered typical and modest for the area and must not be used for rental or other income producing purposes. However, Section 504 loan or grant funds may be used to improve a home on a property that has income-producing land or a small business, as long as the loan or grant is only used to improve the applicant's residence.

A modest dwelling may not have an estimated or appraised value in excess of the applicable area loan limit or an in-ground swimming pool, unless waived by the State Director. Waivers will be documented in the recipient's electronic customer file or case folder and reported to the Director, Single Family Housing Direct Loan Division for informational purposes.

B. Determining Property Value [7 CFR 3550.111]

The Loan Approval Official will determine whether an appraisal is needed to assure adequate security exists for the proposed loan. Section 504 applicants are required to pay an appraisal fee if an appraisal is deemed necessary. The cost of the appraisal fee is described in Paragraph 5.22 and may be included in the 504 loan amount.

If an appraisal is not required, the value and the method used to develop the estimate should be documented in the running record. Utilization of tax assessments, and real estate websites such as Zillow.com, Trulia.com and Realtor.com may be considered as a tool to estimate the value of security.



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. 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 term of 20 years. Section 504 loans are amortized on a monthly basis. Annual payment terms are not permitted.

12.7 MAXIMUM LOAN AND GRANT AMOUNTS [7 CFR 3550.112]

A. Maximum and Minimum Loan Amount

Loan and grant amounts should be rounded to the nearest whole dollar. The maximum and minimum loan that an individual applicant may receive is limited by the four (4) factors discussed below:

- **Outstanding loan amount.** The sum of the outstanding balance on all Section 504 loans may not exceed \$20,000 without an exception from the Deputy Administrator, Single Family Housing.

- **Minimum Loan Amount.** A minimum loan amount of \$1,000 is required for all initial borrowers.
- **Repayment ability.** The applicant receiving a loan must demonstrate repayment ability based on an analysis of the applicant's TD ratio not to exceed 46%. TD includes a sum of all current liabilities to include short-term, long-term and personal loans with identified terms and agreements. Compensating factors may be approved by the Loan Approval Official and exceed the TD ratio described in Paragraph 4.24A without approval by a next level supervisor.
- **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 amounts should be rounded to the nearest dollar. Grant funds are limited by three (3) factors:

- **Ability to repay a loan.** A grant cannot be awarded unless the maximum level of loans, as supported by a repayment calculation of 46% TD ratio have been obtained.
- **Grant Award Limitation.** The grant award is subject to the applicant's adjusted household income and median household income ratio.
- **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 loan 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.

Paragraph 12.8 Loan Approval and Closing [7 CFR 3550.108]

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 and are subject to the disclosures requirements under the Truth in Lending Act and Real Estate Settlement Procedures Act Integrated Mortgage Disclosures (TRID). 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 and/or Loan).

B. Grant Repayment Agreements [7 CFR 3550.114]

Before any grant funds are disbursed, the recipient must sign Form RD 3550-24, Grant Agreement. The agreement states that if a home repaired with a Section 504 grant is sold within three (3) years of signing the grant agreement, 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 RD 3550-24. The original Form RD 3550-24 should be filed with the promissory notes in a locked cabinet with a copy to the recipient’s electronic customer file or case folder, and a copy provided to the recipient. Exhibit 12-2 illustrates owner and co-owner income, assets and signatures required for secured loans and unsecured loans or grants.

Exhibit 12-2				
	Applicant Co-Applicant	Co-Owner Resident	Co-Owner Non-Resident	Other Household Members
Verify Income	Yes	Yes	No	Yes
Verify Assets	Yes	Yes	No	Yes
Repayment Agreement	Yes	Yes	No	No
Security Instrument	Yes	Yes	Yes or No*	No

*Undivided interests, life estates and other jointly held property not exceeding 50 percent of ownership, may be excluded by the State Director if permitted by State law for secured loans. See Paragraph 5.11.



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 prior grant provided to each grantee. Since 1998, grant records have been maintained in MortgageServ. A list of grants closed prior to 1998 will be retained in the operational file folder 3550-C "Section 504 Grantee List." When processing grant applications for individuals born prior to 1936, both MortgageServ and the operational file folder will be checked to document if prior assistance was received. For all other grant applications, a MortgageServ check is sufficient.

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.

12.11 MANAGING REPAIRS AND MINOR REHABILITATION

This section generally refers to work being done which is less complex than new dwelling construction such as subsequent loans, and unsecured Section 504 loans and grants. Typically the repairs, improvements, or minor rehabilitation (work) discussed within this section would be able to be completed within 30 days of it commencing.

A. Communicating the Standards

The applicant needs to be aware of the standards the local jurisdiction has in place for repairs or improvements to their home before the design or bid process progresses. The Loan Originator will advise the applicant to determine whether building permits and licensed trades are required for the types of repairs or improvements they wish to have completed.

Contractors should be provided with a scope of work by the applicant to ensure that the repair estimates for labor and materials are consistent with the homeowners' expectations. If application fees and permits are required, the scope of work will identify the party responsible for submitting the application fees and approval from the local jurisdiction.

B. Selecting the Contractor

While a list of approved contractors should not be maintained, the Agency may provide applicants with sound advice on selecting a contractor (e.g. encouraging competitive bids, checking references, Better Business Bureau, etc.). The Loan Originator should discuss any concerns from their initial review with the homeowner in order to assist with their decision on selecting their contractor(s) to make the repairs, or improvements to their dwelling. The Loan Originator should document in the running record which contractor(s) the homeowner selected.

The contractor must have a valid contractor's license if required by the local jurisdiction, and such license must be documented by the Loan Originator. In many cases, the applicant will have a contractor in mind. Detailed specifications are not required but should include a breakdown of materials and labor and describe the quantity, quality, grades, styles, model numbers, etc. to identify the work and materials to be furnished.

C. Pre-Construction Conference

Once the contractor has been selected and the funds have been obligated, the Agency, the applicant, the designer (if applicable), and the contractor will hold a pre-construction conference. The purpose of the conference is to ensure that each party understands their respective roles and responsibilities. The parties should review the contract, start date, estimated completion date, requirements and specifications to ensure all parties understand the scope of work, construction/thermal standards, environmental mitigation requirements, materials, inspection, change orders, responsibilities for access, cleanup, and payment procedures.

D. Construction Contract

For construction contracts not exceeding \$10,000, Form RD 1924-6, "Construction Contract" is acceptable, but not required. Contractors commonly have bid acceptance language at the bottom of their bid proposals where a homeowner's signature binds it as the agreement (contract). Written contracts are strongly recommended for all rehabilitation-related construction, and are required if the construction work will affect the dwelling's structural integrity (widening doorways, removing walls, foundation work, termite/water damage, etc.). Otherwise, if there are multiple contractors and bid items then a development plan with cost estimates and bid specifications may be used. The applicant and contractor must sign the construction contract no later than at the pre-construction conference.



12.12 COMMENCEMENT OF WORK

Once the contract document has been signed, and the pre-construction conference has been held, the work may begin. Generally, the complexity of most repairs and minor rehabilitation will not require periodic inspections by Agency staff. The homeowner and contractor should communicate with Agency staff any unforeseen issues that arise which could increase costs or jeopardize timely completion.

A. Inspecting the Work

The homeowner will be responsible for making inspections necessary to protect their interest. Agency inspections, or acceptable alternatives are to ensure the funds were used for the completion of the improvements, minor rehabilitation, or repairs as outlined without implication of duty or obligation to the homeowner. The inspection(s) may be conducted on-site by Agency Staff utilizing Form RD 1924-12, Inspection Report, or by alternative methods such as photos, videos, and written reports provided to the Loan Originator.



Qualified third party inspectors may be used when on-site inspections or alternative methods are not feasible. The cost for these services may also be reimbursed to the homeowner with loan or grant funds. Because of additional costs to the homeowner, payment for qualified third party inspectors is not the preferred method. If inspections are conducted by a third party, the inspector should submit periodic inspection reports to the Agency.

B. Periodic Inspections

Work that involves multiple contractors or phases must be accepted before payment can be made. Before the Loan Originator initiates payment to a contractor they must ensure that the homeowner is satisfied with the work completed. The number and timing of inspections varies by the type and extent of work performed.

Once work has commenced, there are two contractor payment options. The first and preferred payment option is a lump sum payment upon completion of work. The second payment option is multiple advances for work in place in accordance with Paragraph 5.26 C. The work will be inspected at intervals appropriate for the extent of the repair work.

Paragraph 12.12 Commencement of Work

For unsecured loans and grants, Form RD 1924-12, Inspection Report is not required. The following documents should be submitted prior to final payment and the Loan Originator determines acceptability of the documentation and the completed repairs in the running record:

- Form RD 1924-9, Certificate of Contractor's Release, or similar,
- Form RD 1924-10, Release by Claimants, or similar,
- Form RD 1924-19, Builder's Warranty (if applicable),
- Homeowners' written acceptance of the completed work,
- Photos of the completed work as provided by the homeowner or contractor,
- A copy of a third party inspection (if applicable).

12.13 CLOSEOUT PROCESS

Once work is satisfactorily completed, the Agency will make final payment to the contractor. Before that can occur, the Loan Originator ensures that the work has been accepted by the homeowner.

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	Required for all applicants with adjusted income exceeding 30% AMI 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.	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.	Multiple priorities apply, but applications for assistance to remove health and safety hazards receive first priority processing. Veteran's preference is used for applications with the equivalent priority status received on the same day.
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 a household member with a disability. General repairs to improve or modernize a home. Repair mobile or manufactured homes with a permanent foundation.
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.	Applicants must have a credit history that indicates a reasonable ability and willingness to meet debt obligations. Costs for credit reports are not charged to the applicant.
Asset Requirements	Applicants are required to contribute nonretirement assets exceeding \$15,000 (\$20,000 for elderly households) toward the purchase of the property.	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 PITI and TD ratios.	Applicants must show repayment ability based on a TD ratio of 46% or less.
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 loan term. 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.	Individual exceptions are allowed.
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; but (3) must have all major hazards removed.
Appraisals	An appraisal is required when the debt is to be secured and prior liens exceed \$15,000. Applicants are required to pay an appraisal fee which may be included in the loan.	The Loan Official determines when an appraisal is needed. Applicants are required to pay an appraisal fee which may be included in the loan.
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 standard loan term of 20 years.
Loan Amount	Total secured indebtedness must not exceed the area loan limit or the market value by more than 5 percent	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.	Unsecured loans less than \$7,500 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 not 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:** _____

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 15-day deadline for submission or the application will be withdrawn, or a 30-day deadline to obtain repair bid(s). 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 (HB-1, 3.5)**
- 3 _____ **Infile Credit Report (HB-1, 3.3, 4.11)**
_____ **If a secured loan application is subject to TRID, forward the following documents as applicable to the applicant within 3 business days of receipt of the application (HB-1, 3.8):**
 - _____ **CFPB’s “Your home loan toolkit: A step-by-step guide”**
 - 2 _____ **CFPB’s Loan Estimate form**
 - 2 _____ **Attachment 3-I, Settlement Service Providers List & Mortgage App. Related Disclosures**
- 2 _____ **For an unsecured loan, send RD 1940-41, Truth in Lending Statement. Date Returned: _____**
- 3 _____ **Check Treasury’s DNP portal, and file in applicant file (HB-1, 4.11, 12.4B)**
- 3 _____ **Check MortgageServ’s “SSN CROSS REFERENCE” softlink key (HB-1, 4.11, 12.9C)**
- 3 _____ **Check list for 504 Grant recipients born prior to 1936 for prior assistance (\$7,500 lifetime limit) and document in running record (HB-1, 12.9C)**
- 3 _____ **Identification and Verification of age (grants only) (HB-1, 4.21)**
_____ **Evidence of age** _____ **Taxpayer’s ID number** _____ **Photo ID**
- 5 _____ **Evidence of homeownership and occupancy: (copy of Deed, RE Tax Bill, etc.) (HB-1 12.4F)**
- 6 _____ **Verify eligibility of subject property. (HB-1, 5.1)**
<http://eligibility.sc.gov.usda.gov/eligibility/welcomeAction.do>
- 3 _____ **Enter application complete date in stage updating of UniFi and on Form RD 410-4**
- 4 _____ **Funds Available; send HB Letter 11, Request Information (HB-1, 3.13)**
- 4 _____ **Funds Not Available; send HB Letter 2, Funds Not Available (HB-1, 3.12)**

<u>POS</u>	<u>DATE</u>	<u>PROPERTY ELIGIBILITY</u>
3	_____	Property eligibility determination (document with Automated Worksheet for Computing Income and 504 Eligibility) (HB-1, 12.3) Method used: (site visit, online resources) _____
6	_____	Verify the subject property's address using the USDA address verification site. Result code must be 1 or 2; <u>or</u> researched, verified, and documented if not. Enter verified address in UniFi. (HB-1, 5.1) (http://eligibility.sc.egov.usda.gov/eligibility/addressVerification)
6	_____	Checklist for Evaluation of Existing Dwelling (HB-1, 12.3, Attachment 12-D), if applicable.
6	_____	Photographs of property and essential repairs (before and after). (HB-1, 12.12)
8	_____	Appraisal Report, or document Statement of Value (HB-1, 12.5B)
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://leadpaint.sc.egov.usda.gov/LBPWeb/index.html)
3	_____	RD Instruction 1970-B, Exhibit D, "Environmental Checklist for Categorical Exclusions" (1970-B & HB-1, 5.8)
3	_____	FEMA's Standard Flood Hazard Determination Form (HB-1, 5.8 & 1970-F) (https://www.floodcert.com)
3	_____	FEMA's Elevation Certificate Form, (HB-1, 5.8 & 1970-F), if substantial rehabilitation (https://www.fema.gov/media-library/assets/documents/160)
3	_____	Private Party Notice Regarding Flood Hazards, as applicable (HB-1, 5.8 & 1970-F)
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, 5.8)

<u>POS</u>	<u>DATE</u>	<u>CONSTRUCTION</u>
6	_____	Review detailed bid(s) from contractor(s) itemized costs to include labor and materials (HB-1, 5.25)
6	_____	Check contractor in the DNP portal and place a copy in applicant's file.
5	_____	AD 1048, Certification Regarding Debarment ... - lower tier (signed by contractor >\$25,000), if applicable
6	_____	RD 1924-2, Description of Materials (HB-1, 5.24), if applicable
6	_____	RD 1924-1, Development Plan
6	_____	RD 1924-6, Construction Contract (Send Ex C, RD Inst. 1901-E (HB-1, 12.11) DOL website (www.dol.gov/ofccp/regs/compliance/preaward/cnstnote.htm) within 10 days, if applicable
3	_____	Attachment 12-F. Pre-Construction Conference (HB-1, 12.3)
6	_____	"400 Series" (400-1, 400-3, 400-6, posters) (HB-1, 5.25), as applicable
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 (HB-1, 12.12) frequency as appropriate for type of rehab, or other documentation
6	_____	RD 1924-9, Certificate of Contractor's Release & RD 1924-10, Release by Claimants, as applicable
6	_____	RD 1924-19, Builder's Warranty (HB-1, 5.27), if construction contract used

CHECKLIST FOR EVALUATION OF EXISTING DWELLING

Owner-Occupant Name

Property Address

Co-Owner Occupant Name

Account Number

Mark the appropriate box to indicate the condition of each element.

Yes	No	Health / Safety Hazard	Element
<input type="checkbox"/>	<input type="checkbox"/>		1. Entry, Exit, Walkway and Driveway. Porches, stairs, decks are sound and free of deterioration. Handrails are required for extended stairs generally four or more consecutive steps. Walkways, porches and decks pose no safety hazards and provides adequate accessibility for a household member with a disability, if applicable.
Comments:			
<input type="checkbox"/>	<input type="checkbox"/>		2. Exterior Walls. Exterior walls do not exhibit signs of structural fatigue, failure, or excessive bowing. The siding is free of any rot or paint that is loose, peeling, chipping, scaling, or cracking. Vinyl or aluminum siding is free of mildew. Brick or stone veneer is sound and exhibits no displacement.
Comments:			
<input type="checkbox"/>	<input type="checkbox"/>		3. Utilities. The property is connected to a water/septic system that is approvable by an appropriate public agency. The system is adequate for the size of the property and is performing satisfactorily. The dwelling has adequate, safe, dependable utilities with no evidence of malfunction.
Comments:			
<input type="checkbox"/>	<input type="checkbox"/>		4. Foundation. The foundation is structurally sound with no evidence of defects such as cracks, bowing or moisture intrusion. If a deficiency is noted, describe the nature of the deficiency and report necessary repairs, alterations or required inspections to alleviate the deficiency. Gutters, downspouts and grading are functioning adequately and provide proper drainage, if applicable.
Comments:			
<input type="checkbox"/>	<input type="checkbox"/>		5. Roof. The roof is satisfactory and free of serious defects such as buckling, sagging, holes, leaking and is expected to last a minimum of 2 years.
Comments:			

Yes	No	Health / Safety Hazard	Element
			6. Interior walls, framing and trim. Structurally sound and are exhibiting no signs of bowing, sagging, or deterioration.
Comments:			
			7. Windows. Windows are functional, adequate and energy efficient exhibiting no obvious signs of deterioration.
Comments:			
			8. Framing. Floor, subflooring, ceiling joists and partition framing are sound and exhibit no structural deficiencies.
Comments:			
			9. Floor covering. Structurally sound and without presence of cracks, holes, buckling, damage, heavily worn or soiled.
Comments:			
			10. Plumbing. Functionally adequate water pressure, flow and waste removal. Water heater and sump pump are functional. Plumbing fixtures exhibits no evidence of leaks, damage.
Comments:			
			11. Heating and Air Conditioning. Functionally adequate
Comments:			
			12. Electrical Wiring. Functionally adequate.
Comments:			

Additional Comments: _____

 Reviewer Signature

 Date

CHECKLIST OF ITEMS TO ACCOMPANY APPLICATION FOR HOME REPAIR LOAN OR GRANT FUNDS

Applicant Name: _____ Phone: _____ Cell: _____

Co-Applicant Name: _____ Phone: _____ Cell: _____

Applicant Email: _____ Co-Applicant Email: _____

Preferred contact? Mail: _____ Phone: _____ Cell: _____ Email: _____

Check the boxes below when completed

REQUIRED FORMS: Please submit the following documentation:

- Form 410-4, "Uniform Residential Loan Application" complete, sign and date pages 5 & 8.
- Form 3550-1 "Authorization to Release Information" for each adult household member.
- Form 3550-4, "Employment & Asset Certification" for each adult household member.

INCOME:

- Verification of **all household income**. To qualify for the program, a household's adjusted income must be within the established income limit based on size and location. Below are some examples of income that may be applicable to all household members and what should be provided to the Agency.
 - Copies of the last four week's consecutive pay stubs.
 - Copies of recent benefit statements for regular unearned income (such as social security, public assistance, retirement income, etc.).
 - Last 12 month payment history of alimony and/or child support received as provided by the court appointed entity responsible for handling payments. If this is not available, a copy of the separation agreement or divorce decree.
- For each applicant, a complete copy of their last two signed and filed Federal Income Tax Returns. IRS Form W-2, "Wage and Tax Statement," and/or IRS Form 1099-MISC, "Miscellaneous Income", must be attached. For returns mailed to the IRS, provide a copy of the signed document. For returns filed electronically, include a copy of the signature page with the Self-Select PIN, confirmation that the return was accepted, or evidence that it was filed by an authorized E-File provider.
- For each applicant, a signed IRS Form 4506-T, Request for Transcript of Tax Return
<https://www.irs.gov/pub/irs-pdf/f4506t.pdf>

- For each non-retired applicant, a written explanation of employment history of less than two years or employment gaps in excess of 30 days within the last two years.

ASSETS, CREDIT, OTHER DOCUMENTATION:

- For each applicant, a copy of their two most recent asset/bank statements. (Note that if you are obtaining this information through online banking, you should print your bank statement, as opposed to printing the online transaction history.)
- For each applicant, a written explanation for late payments, collections, judgments, or other derogatory items in their credit history of which they may be aware. If applicants are unsure what their credit history looks like, they can obtain a free credit report by calling 1-877-322-8228 or logging into <http://www.annualcreditreport.com>. By law, individuals are entitled to receive one free credit file disclosure every 12 months from each of the nationwide consumer credit reporting companies – Equifax, Experian and TransUnion. This free report cannot replace the credit report that the Agency will obtain to determine eligibility.
- For each applicant, verification of their identity. A copy of a Government-issued photo identification, evidence of date of birth (only required if not listed on the photo identification), and a copy of their Social Security card.
- For a household member who is a full-time student and 18 years of age or older, a copy of their school transcript.
- If applicable, provide written evidence of child care expenses for dependents 12 years of age or younger.
- If applicable, evidence of out of pocket annual medical expenses (for applicants 62 years of age and older, or individuals with a disability) who wish to be considered for a deduction to household income.

PROPERTY INFORMATION:

- Evidence of Ownership: Copy of Deed, or other documentation.
- Tax Statement: Most recent property tax assessment and annual statement, if applicable.
- Insurance: Evidence of homeowner's hazard or flood coverage, if applicable.
- Repair Bid(s) including an itemized description of repairs, material, labor, and a copy of Contractor's license, if applicable.
- Mortgage Statement: Most recent copy of mortgage statement, if applicable.

PRE-CONSTRUCTION CONFERENCE

Owner Name(s): _____ Contractor: _____

A Pre-Construction Conference was held () in person, () by telephone on _____
to review the contract/bid and/or specifications dated _____ for work to be completed
and performed at the property address, _____.

The Contractor will start work on _____, and will complete the work by _____.

- Although Rural Development (RD) is interested in the proper completion of the work, RD is not and will not become a party to the contract nor incur any liability thereunder.
- Parties involved have reviewed the plans and specifications/bid and understand the scope of work, construction standards, environmental requirements, materials, liquidated damages, inspections, change orders and payment procedures.
- The Contractor will submit evidence (i.e. unconditional lien waivers) that all payrolls, labor, equipment and material bills, and other indebtedness connected with the work have been paid and at completion of the Contract, will furnish and sign Form RD 1924-10 "Release of Claimants", Form RD 1924-9 "Certificate of Contractor's Release", and RD 1924-19 "Builders Warranty" (or similar documentation).
- Acceptance by the Owner will not relieve the Contractor of obligation to the Owner to discharge any and all liens for the benefit of subcontractors, laborers, material, person, or any other persons performing labor upon the work or furnishing material or machinery for the work covered by this contract, which have attached to or may subsequently attach to the property, or interest of the Owner.
- All notices, consents, or other acts to be given or done hereunder shall be valid only if in writing.
- Disputes in the construction and/or completion of the contract will be resolved between the Owner and the Contractor with RD remaining informed by both parties.

Responsibilities:

- Owner is responsible to monitor progress of proposed repairs, approve payments to contractor as specified in contract, and attend final inspection. Owners are responsible for property inspections, to address any faulty or defect in work or nonconformance with the contract and provide written notice to RD to protect their own interests.
- Contractor's responsibilities include obtaining and displaying posters and permits as required, perform work in accordance with approved plans, specifications and apply for preapproval for contract change orders if necessary. Notify owner and RD when work is complete. It is the Contractor's responsibility to obtain and furnish RD with all permits, inspections and

approvals required by the local code department. Be advised that should human remains, historic or cultural resources be uncovered during excavation or site development, all work must be stopped until an additional environmental analysis is completed.

- RD's responsibility is to protect the government's interest, monitor progress of construction, authorize partial payments, final payments, and authorize contract change orders. RD inspections do not create or imply duty or obligation to the owner and are conducted to determine whether the property provides adequate security and dwelling requirements.

Check the applicable:

- Contract is in excess of \$10,000 and subject to Executive Order 11246, as amended. Form RD 400-1 has been executed by the Owner, Form RD 400-3 has been issued by the Agency along with applicable posters to be displayed at the job site, and Form RD 400-6 has been executed by the Contractor. Established affirmative action goals for women and minority construction participation are included in the contract, or;
- Contract is not in excess of \$10,000 and is not subject to EO 11246.
- Contractor and subcontractors (if applicable) greater than \$25,000 sums have executed Form AD 1048, "Certification Regarding Debarment, Suspension, Ineligibility" in accordance with EO 12549; or
- Contract sum is \$25,000 or less and Form AD 1048 is not required.
- Form RD 1924-25, "Plan Certification" is required and has been completed; or
- Form RD 1924-25, "Plan Certification" is not required.
- Contractor will obtain applicable building and occupancy permits; or
- No building or occupancy permits are required.
- The presence of Lead-Based Paint (LBP) is presumed. Contractor will use EPA certified Safe Work Practices in accordance with 24 CFR 35.1350, HUD LBP regulations during completion of work to be performed. Upon completion of the contract, the area in which the work was performed will be subject to a LBP Clearance Test, as performed by a licensed LBP Inspector or Risk Assessor. Should the test results indicate an unacceptable level of LBP residue, the Contractor will be responsible for additional cleanup, and providing an acceptable clearance report from a LBP Inspector or Risk Assessor to RD. No payment for work will be made until an acceptable clearance report is provided; or
- No LBP Clearance Test is required.
- No subcontractors will be utilized; or
- A list of subcontractors will be provided by the Contractor.

Owner: _____ Co-Owner: _____

Contractor: _____ RD Representative _____