

USDA RURAL HOUSING SERVICE'S SECTION 504 REPAIR AND REHABILITATION PROGRAM A GUIDE FOR LOAN AND GRANT APPLICANTS



HAC

Resource Guide

Through the Section 504 loan and grant program, the federal Rural Housing Service/Rural Development provides assistance to very low-income homeowners who are unable to finance necessary repairs through other sources. This guide – part of the Housing Assistance Council's popular Technical Series – explains the requirements for using the Section 504 program, and how to apply.



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SECTION 504 REPAIR AND REHABILITATION PROGRAM
A GUIDE FOR LOAN AND GRANT APPLICANTS

Housing Assistance Council

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HAC, founded in 1971, is a nonprofit corporation which supports the development of rural low-income housing nationwide. HAC provides technical housing services, seed money loans from a revolving fund, housing program and policy assistance, research and demonstration projects, and training and information services.

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I. INTRODUCTION

A. What is the Section 504 Loan and Grant Program?

The Section 504 Loan and Grant Program, sometimes called the “Rural Repair and Rehabilitation Loan and Grant Program” provides financial assistance to very low-income homeowners unable to finance necessary repairs through other sources. Loans are used to make general repairs and improvements or to remove health and safety hazards. Grants are used only to remove health and safety hazards or to make dwellings useable and accessible to persons with disabilities.

Persons with adjusted incomes below 50 percent of median income, as defined by the Department of Housing and Urban Development (HUD), may qualify for RHS Section 504 loans. Only the very low-income (50 percent of median) elderly (62 years of age or older) are eligible to receive grants.

The United States Department of Agriculture (USDA) administers this program through its Rural Development (RD) mission area. The Rural Housing Service (RHS) - also known as “Rural Housing and Community Facilities Programs” - is the agency within RD oversees the funding and the regulations for the Section 504 Loan and Grant program. Actual delivery of the program takes place through a Rural Development field office.

B. About This Guide

This guide is intended to familiarize the reader with the Section 504 Loan and Grant Program. We will use the term USDA when referring to agency requirements or guidance and the term Rural Development when referring to an agency field office. While it may be possible to submit an application solely by studying this guide, HAC strongly advises that loan packagers (and applicants not working with a loan packager) obtain and utilize the complete Handbook ([HB-1-3550, “Direct Single Family Housing Loans and Grants, Field Office Handbook.”](#)) Packagers and applicants should also check with the local Rural Development office to receive proper forms and specific instructions. There are a number of references to USDA and other websites in this guide. Individuals who do not have internet access may contact HAC for assistance:

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II. USDA RURAL HOUSING PROGRAMS

A. Using USDA Rural Housing Programs

USDA rural housing programs are relatively easy to use. While land and housing development are complicated processes with complex governmental involvement, use of the USDA programs as financing vehicles should not add roadblocks to a project's success. They are very close to "do it yourself" programs for which the informed person or organization can apply without extensive use of expensive consultants. Even so, applying for financial assistance can be an intimidating process. In addition, demand for funding, especially for grants, often exceeds the supply. Applicants are strongly encouraged to discuss their situation with a knowledgeable loan packager or the local Rural Development office.

There are five "basics" to understanding and properly using USDA housing programs:

1. Know what they do. Know the programs' purposes, as defined by law.
2. Know how they do it. Know the programs' processing procedures, as established by agency Instructions and Handbooks, which are used by Rural Development loan processing and approval officials.
3. Know why they do it a particular way. Know how much authority Rural Development officials have. Variations from national instructions may occur because of state or local law or because of misinterpretation by individual officials.
4. Follow agency instructions. Provide what is asked for in the manner requested. Consult with the local Rural Development office prior to developing an application.
5. Obtain information on the current and future availability of funds. Funding for most USDA housing programs, especially grant programs, is limited. It is important that applicants for these programs ask about the status of program funding. One should also obtain information on priority for accessing those funds.

Given a working knowledge in these basics, anyone can become reasonably proficient in using the RHS programs.

B. USDA Service Area

USDA rural housing programs are available to eligible applicants (see Section III.A regarding eligibility) in eligible "rural areas" under the agency's unique statutory definition of "rural." Generally, areas with populations not more than 20,000 outside of Metropolitan Statistical Areas (MSA) and areas within an MSA with populations of 10,000 or less and have a serious lack of mortgage credit as determined by the Departments of Agriculture and Housing and Urban Development, are eligible. Some areas with populations exceeding 20,000 are also eligible based on special provisions in the law.

The local Rural Development office will have county maps showing all ineligible areas in each county served by that office. The easiest way to determine whether a particular dwelling is in an eligible rural area is to check USDA's website:

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

C. USDA/Rural Development Organization

RHS is a federal agency and is part of the Rural Development mission area within the U.S. Department of Agriculture. Most of its loan programs are processed directly by Rural Development employees. Its organization is as follows:

1. The RHS National Office sets policy and develops regulations.
2. Rural Development State Offices administer programs in a state or multistate area.
3. Rural Development Area or Local Offices receive and process RHS housing loan and grant applications (including Section 504 applications), provide counseling and supervision for single-family loans.
4. Rural Development Centralized Servicing Center (also called the Customer Service Center) is responsible for servicing the agency's housing loans once they have been closed.

Area/local offices have flexibility to consider unique local factors. The best way to ensure success with USDA programs is to be well informed.

D. Locating Rural Development Offices

Rural Development maintains a number of local offices serving eligible rural areas of the United States, Puerto Rico, the Virgin Islands, Guam, American Samoa and the Western Pacific Territories. Most offices serve more than one county. Local offices servicing large areas may maintain sub-offices in other locations where Rural Development staff are available during scheduled office hours.

To locate the Rural Development Office serving a particular area:

- Check the USDA Office Locator website: <http://offices.sc.egov.usda.gov/locator/app>
- Look for the local Rural Development office in the telephone book under U.S. Government, Department of Agriculture, Rural Development.
- Contact the local Cooperative Extension Service.
- Write or call the Rural Development State Office.
<http://www.rurdev.usda.gov/stateofficeaddresses.html>

- Contact the National Office for the address of any Rural Development office in the nation. Write to Rural Housing Service, U.S. Department of Agriculture, Washington, DC 20250.

E. Applicable Regulations

The regulations for the Section 504 Loan and Grant Program (as well as those for the Section 502 direct loan homeownership program) are set out in Title 7, Part 3550 of the Code of Federal Regulations ([7 CFR Part 3550](#)). Part 3550 is supplemented by two handbooks that provide procedural guidance to Rural Development employees: the “Direct Single Family Housing Programs Field Office Handbook” ([HB-1-3550](#) or “Field Office Handbook”) and the “Direct Single Family Housing Loans and Grants Centralized Servicing Center Handbook” ([HB-2-3550](#).) Chapter 12 in the “Field Office Handbook” covers Section 504 specifically.

The handbooks are not published in the *Federal Register* or the Code of Federal Regulations, but are available from the agency. Program users will need the “Field Office Handbook.” Its table of contents is very useful, providing ready access to almost any loan-making topic or requirement. The handbook and other guidance used by agency field staff are available on the USDA website.

Agency regulations and handbooks are available at the website below:

<http://www.rurdev.usda.gov/RegulationsAndGuidance.html>

The following are other agency instructions with which the reader should become familiar:

- [1924-A, for development regulations](#)
- 7 CFR Part 11, for appeals (included in [Appendix 4 of the “Field Office Handbook”](#))
- [1940-G for environmental regulations](#)

These regulations can also be found in Title 7 of the Code of Federal Regulations (CFR). For example, RD Instruction 1924-A is located in 7 CFR Part 1924 Subpart A. While perhaps convenient, the CFRs are updated annually only, and may not reflect key changes or revisions made during the interim. The links provided above will take one to the USDA website, which should have the most up to date information.

Rural Development State Offices may issue relevant state instructions as well. State instructions are not discussed in this guide.

In this guide, instructions are often referenced by section number such as 3550.53. Unless otherwise noted, those numbers refer to sections of 7 CFR Part 3550. Hyperlinks are provided for most references.

Forms are also available from a local USDA/Rural Development office or on the USDA website:

<http://forms.sc.egov.usda.gov/eForms/welcomeAction.do?Home>

USDA forms can be located on the above website by clicking on the option to “Browse Forms” and typing in the appropriate form number.

The forms can be completed and sent to the local office electronically. To do this, users must register on the agency’s eAuthentication web site. For more information, refer to:

<https://www.eauth.usda.gov/MainPages/index.aspx>

III. USDA SECTION 504 LOANS AND GRANTS

Section 504 loans and grants are intended to assist very low-income rural homeowners, including those on leasehold lands, to make repairs to improve or modernize their homes to make them safer or more sanitary, or remove health and safety hazards. However, the dwelling does not necessarily have to be brought up to Section 502 minimum property standards. Section 504 grants may be used only to assist the rural elderly to remove health or safety hazards.

Section 504 grants are considered to be taxable income under the Internal Revenue Code. At the time of grant closing, Rural Development submits a 1099 form to the Internal Revenue Service reporting the grant as income.

A. Eligible Applicants (Section 504 Loans)

In order to qualify for a Section 504 loan, an applicant must meet the following criteria:

1. be an owner-occupant of a dwelling located in an eligible rural area (as defined by USDA) at the time of application;
2. have a very low income. Very low-income is adjusted income which does not exceed 50 percent of median income for a given area. The income limits can be found at: http://www.rurdev.usda.gov/HSF-Direct_Income_Limits.html. Be sure to refer to the “Very Low Income” limit for your county.
3. lack sufficient resources or income to make the repairs or to obtain a loan from other sources;
4. have sufficient income to repay the Section 504 loan, except that if income is insufficient, the applicant may qualify for the loan by obtaining a cosigner or cosigners. Eligible cosigners are persons with dependable available income which will be sufficient to repay the loan. A member of the applicant’s household may also join the application;
5. need to make repairs and improvements to the dwelling which the applicant owns and occupies, in order to improve or modernize it to make it more safe and sanitary and/or remove hazards to the health of the applicant, family or community;

6. be a natural person residing in the 50 states, Puerto Rico, U.S. Virgin Islands, Guam, Northern Mariana Islands, American Samoa, Micronesia, Marshall Islands, or Palau; and a citizen of the U.S., a qualified alien, or a non-citizen national;
7. have the legal capacity to incur obligations or have a court appointed guardian or conservator who is empowered to obligate the applicant in real estate matters;
8. have a credit history that indicates a reasonable ability and willingness to pay debts when due. Exceptions to the credit history requirements can be made when the adverse circumstances are temporary in nature.

B. Combination Loan and Grant

When an elderly applicant (62 years of age or older) has income so low as to be only able to repay a portion of the amount needed for repairs and improvements, a grant may be used for the balance. Rural Development uses budgets (Form RD 1944-3) to determine repayment ability.

An applicant is eligible for a grant only if the budget analysis based on Form RD 1944-3 indicates that the household would be unable to repay a loan for the amount needed over a 20 year term. If the budget analysis indicates that a grant applicant has partial repayment ability, the amount the applicant can repay must be issued as a loan, with only the remainder provided as a grant.

C. Section 504 Grant Without Loan

A total grant may be provided to an elderly applicant whose income is so low as to have no Section 504 repayment ability.

D. Eligible Uses of Loan and Grant Funds

Section 504 loan funds may be used to improve or modernize dwellings. Dwellings need not be repaired to the standards required in the Section 502 program, but all work done must meet local codes and standards and the property must not have major health or safety hazards after the planned repairs are completed.

Section 504 loan funds may be used to pay the cost of repairs and improvements (including weatherization) such as:

1. repair or replacement of roofs;
2. energy conservation improvements, such as insulation, caulking, storm windows and doors, and other;
3. installation of wood burning stoves that meet the development standards in Instruction 1924-A;
4. repair or provision of structural supports, and replacement of severely deteriorating siding when it constitutes a health or safety hazard;

5. addition of a room to an existing dwelling, (if grant funds are used, this may be done only when it is clearly necessary to remove hazards to the health of the family;
6. provision or repair of sanitary water and waste disposal systems. If funds are included in the loan for a water or waste disposal system, the requirements of Exhibit C to Instruction 1924-A, Instruction 1924-C, and local Health Department requirements must be met.
7. reasonable connection fees or prorata installation costs for utilities, which cannot be paid from other funds;
8. electrical wiring;
9. necessary repairs to mobile homes owned and occupied on the site prior to application to Rural Development, and when required to remove health and safety hazards. This includes placing the mobile home on a permanent foundation;
10. payment of fees and expenses incidental to making plans and obtaining the loan, such as legal and architectural fees, and similar purposes;
11. repair or remodeling to make homes accessible and useable for handicapped or disabled persons;
12. application packaging fees for private or public nonprofit organizations, provided:
 - a. the services provide direct or indirect savings to the government;
 - b. the charges are reasonable, and do not exceed the limits in HB-1-3550, Chapter 3, Attachment 3-A;
 - c. the packager is not receiving other compensation for the services such as a real estate commission, grant funds, etc.;
13. establishment of escrow accounts for taxes and insurance, including flood insurance.

Grant funds may only be used to pay for repairs and improvements resulting in removal of identified health and/or safety hazards or to repair or remodel dwellings to make them accessible and useable for household members with disabilities. Not all hazards need be removed provided the dwelling does not continue to have major hazards after completion of repairs.

E. Limitations

Section 504 loans and grants may **not** be used to:

1. assist in the construction of new dwellings;

2. make repairs to a dwelling of such poor condition and quality that, when the repairs are completed, the dwelling would probably continue to be a substantial hazard to the health and safety of the family;
3. provide grant assistance (lifetime) exceeding \$7,500;
4. make a loan exceeding \$20,000;
5. make a loan or combination loan and grant exceeding \$27,500;
6. make grants to applicants under 62 years of age;
7. pay for off-site improvements except those involving fees and costs for utility connections;
8. finance the following mobile home expenses:
 - a. moving a mobile home from one site to another;
 - b. repairing a mobile home not owned, and not on a site owned, by the applicant prior to the application;
 - c. repairing a mobile home not on a permanent foundation (i.e., for a full below-grade foundation or use of blocks or piers, etc., with skirting and anchored with tie-downs);
9. refinance debts or obligations other than those involving fees and costs for utility connections.
10. purchase or install equipment (range, refrigerator, etc)
11. pay packaging fees to a for-profit entity
12. site preparation (grading, seeding, foundation planting, etc)
13. construct a deck
14. install a driveway
15. landscaping

F. Sale of Property

Grant recipients must sign an agreement not to sell the property for three years. In the event the property is sold within three years, the grantee or their heirs or estate must reimburse Rural Development the full amount of the grant.

G. Rates and Terms

Section 504 loans bear 1 percent interest and are repayable over a period of up to 20 years. Whenever a combination loan and grant is utilized, the loan must be amortized over 20 years. Payment on a Section 504 loan amortized for 20 years is \$4.60 per month per \$1,000 of loan.

H. Evaluation to Determine Repayment Ability for a Loan and the Amount of Grant

Local Rural Development officials are required to document an applicant's ability to repay the loan and actual need for grants. A budget is prepared for each household, using Form RD 1944-3, "Budget and/or Financial Statement." The budget must evidence the applicant's ability to repay the loan. For elderly families, the budget also documents the need for a grant. Because these programs are highly subsidized, loans are scheduled for repayment over the shortest term feasible. When the total amount of funds needed is known, the budget is used to determine how much the applicant can afford to pay.

The amount available (amount the applicant can afford to repay the loan) is amortized to reflect a maximum loan amount. For example:

- a. An elderly applicant needs repairs costing \$5,000.
- b. Considering monthly household cash expenses and debt payments (except the proposed loan), the budget evidences an ability to pay \$15 per month towards a Section 504 loan.
- c. The maximum loan amount supported by a \$15 per month payment is computed as follows:

$$\begin{aligned} & \$15 \text{ per month divided by } \$4.60 \text{ per thousand dollars times } 1000 = \\ & \$3,260.87 \text{ (round to nearest } \$10 = \$3,260) \end{aligned}$$

In other words, take the amount the applicant can afford to pay, divide it by the amortization factor (\$4.60 per month per \$1,000 borrowed).

\$15 per month will repay a loan of 3.260 thousands (\$3.260 times 1,000 equals the maximum loan amount)

- d. Authorized grant is $\$5,000 - \$3,260 = \$1,740$.

I. Applicant Assets

USDA takes the applicant's assets into consideration in determining whether/how much assistance is needed. Applicants must provide information about household assets at the time of loan application. Depending on the type of asset, USDA will request documentation to verify the asset information and determine the value of the asset. USDA considers income from assets in the determination of annual and repayment income.

Nonretirement assets that can be converted to cash in 90 days or less must be used to reduce the need for USDA financial assistance.

Guidance on evaluating assets is found in HB-1-3550, Chapter 4, paragraphs 4.5 through 4.8. USDA will consider non-retirement assets that can be converted to cash in 90 days or less. Assets in excess of \$15,000 for nonelderly households or \$20,000 for elderly households must be used toward the repair of the property.

J. Performing Development Work

USDA prefers detailed written cost estimates are required from more than one source if feasible. When substantial rehabilitation or new construction (additions) are involved under contract, Form RD 1924-19, "Builders Warranty" is required.

Contractors, builders or tradepersons must be competent to perform specific development

All work and materials must meet local codes and standards.

K. Funding Priority

Priority will be given to loan/grant applications involving removal of health and safety hazards.

Preference is extended to qualifying veterans when Rural Development receives applications of equal priority on the same day.

IV. HOW TO APPLY

A. The Application Process

Applications are submitted to the local Rural Development office serving the county where the housing is located. The application requirements are similar to those in the Section 502 program. Applications may be made in either of two basic ways.

- _ An applicant may file his or her own application.
- _ An application package may be prepared on the applicant's behalf by a packager. Section 504 packagers are usually nonprofit groups.

The application forms are basically the same whether the request is for a loan or a grant:

1. **Application Form** - Form 410-4, "Uniform Residential Loan Application. In addition to the application form, Form RD 3550-1, "Authorization to Release Information" is also required.
2. **Budget and/or Financial Statement** - Form 1944-3 is required for all applicants.
3. **Verification of Income and Assets** – Documentation and verification of all income received by adult members of the household is required. Paystubs (generally covering the most recent 30 days) may be used for employment income. Copies of benefit award letters may be used to verify pension, Social Security, Supplemental Security Income (SSI), welfare and other similar income sources. Copies of bank or brokerage company statements for the most recent two month period must be provided.
4. **Credit Reports** - Credit reports are obtained by Rural Development at no cost for Section 504 loan applicants.
5. **Evidence of Ownership** - Ownership may include any of the following:

- a. full fee title;
- b. land purchase contract when current and it appears the applicant will continue to meet those obligations;
- c. undivided interest. Loans and/or grants may be made when the applicant has lived in the house for 10 years; there is no reason to believe the applicant's owner/occupant position will be jeopardized. In the case of unsecured loans or grants any co-owners living or planning to live in the unit must sign the repayment agreement; See 3550.107(d).
- d. leasehold interest. Ownership in the form of a leasehold must be expressed in writing and have a term at least two years beyond the final payment for the proposed loan or not fewer than five years in the case of a grant. Mutual

USDA uses three definitions for income.

Annual income (the income of all household members); **Adjusted income** (Annual income less certain deductions); and **Repayment income** (the income of only those household members who will sign the promissory note.)

Chapter 4, paragraph 4.3 in the field office handbook (HB-1-3550) lists sources of income considered for calculating "Annual Income" and "Repayment Income."

Chapter 4, paragraph 4.4 in the same handbook explains how to compute adjusted annual income. (7 CFR 3550, 3550.54 and Chapter 4 in the Field Office Handbook).

help (HUD) leases on Indian land require no minimum lease period and constitute acceptable ownership;

- e. possessory rights on American Indian reservations or state-owned land, and American Indian land held severalty under trust patents containing restrictions against alienation, provided that such land will remain in trust or restricted status;
- f. life estate. The right of present possession, control and beneficial use must be guaranteed.

Rural Development will accept the following as evidence of ownership:

- a. any commonly used ownership instrument such as a deed;
- b. evidence that the applicant is listed as the owner on tax records and has paid taxes;
- c. affidavits by others in the community that the applicant has occupied the property as apparent owner for not fewer than 10 years and is generally believed to be the owner.

6. **Selecting a Contractor** – The applicant should select the contractor to perform the repairs. The local Rural Development office may have a list of contractors who worked with other recent applicants; however, the applicant may choose any qualified contractor. Rural Development’s requirements can be found in Chapter 5, paragraph 5.24 through 5.25. The contractor should complete a cost estimate supplemented by Form 1924-2, “Description of Materials,” or similar contractor’s form, and Form 1924-6, “Construction Contract.” Specifications must include quantity, quality, sizes, grades, styles, model numbers, etc.

Bids or additional cost estimates may be required at the discretion of Rural Development officials.

Detailed drawings (to scale) are necessary for water and waste disposal systems or room additions when applicable.

- 7. **Direction Map to Dwelling** - This is important to assist Rural Development personnel in locating the residence.
- 8. **Information About Prospective Cosigners** - Confirmed employment and income data plus a financial statement for each cosigner is needed.
- 9. **Information on Prior Mortgages** - Copies (or citations to recording data) showing date, amount, interest rate, principal balance and terms are needed.

B. Local Office Review

In reviewing the loan application, the local Rural Development official must verify that the applicant meets all eligibility requirements for a Section 504 loan. When the loan or grant will result in the removal of health and safety hazards, a Rural Development official may visit the home of each applicant who appears to be eligible within 30 days of the date of application.

During the visit, information is recorded in the application docket on the following items and any additional pertinent facts: (1) the nature of health or safety hazards, and how the loan will remove the hazards; and (2) the specific repairs to be made, along with a list of materials and labor to be provided with the proposed loan. Itemized cost estimates are obtained for all work to be performed. If, in the judgment of the Rural Development official, the cost estimate is unreasonable, additional cost estimates are obtained.

If applicable, information about cosigners is obtained. The information should include a current financial statement, a statement of income and expenses, and a description of the nature of the cosigner's employment or business history. The local Rural Development official is required to review and approve the cosigner's financial condition and reputation for debt payment.

C. Appraisal/Loan Approval

Rural Development requires an appraisal when the total indebtedness against the property will exceed \$15,000. There is an appraisal fee, which can be included in the loan/grant.

If the applicant appears eligible and the application appears sound following the steps discussed above, and if funds are available, the local Rural Development official will approve the loan and/or grant.

D. Disapproval and Appeal

When a loan is refused, Rural Development will notify the applicant in writing of the action, giving the reasons and the appropriate review or appeal rights.

For more information, see *A Guide to Appealing Rural Housing Service/Rural Development Decisions*, a HAC publication.

If all else fails and the applicant is still convinced the loan and/or grant should be made, the applicant's legislative representative(s) should be asked to intervene.

E. Loan and Grant Approval

Income and financial information used for approval purposes generally must not be more than 90 days old. When the application is approved, the applicant is notified of any conditions. Funds are obligated when the loan or grant is approved. A closing date is arranged with the applicant. When the check is received, the loan and/or grant is closed.

F. Security and Title Clearance

Loans of \$7,500 or more and loans with repayment periods exceeding 10 years are secured by a real estate lien (mortgage or deed of trust). Real estate security is also taken for loans of less than \$7,500 where the loan approval official determines it is needed to assure loan repayment.

Persons receiving grants must sign an agreement not to sell the property for three years. This agreement (Form 3550-24, "Grant Agreement") provides for full grant recovery by Rural Development in the event of sale before expiration of the three years.

(A copy of the form may be obtained from the local Rural Development office or the following website: <http://forms.sc.egov.usda.gov/eForms/welcomeAction.do?Home?>)

G. Loan and Grant Closing

Section 504 closings where total RHS indebtedness does not exceed \$7,500 are normally conducted at the local Rural Development office. Funds are typically advanced under a multiple advance system or placed in a supervised bank account in the name of the borrower.

H. Closing Expenses

The borrower is responsible for all fees and expenses associated with the loan and/or grant closings. As noted earlier, these may be included in the loan and/or grant.

I. Construction and Contract Arrangements

Actual construction is generally performed after closing. The work may be performed under one of several methods:

1. A general contractor may be employed, utilizing an agency approved construction contract.
2. Two or more contractors may be employed to do different aspects of the repair work.
3. The "borrower method" may also be utilized in unusual circumstances, whereby the borrower purchases materials and does the work or contracts separately for labor. (In such instances, Rural Development must be assured of the applicant's ability to perform the work.)

The contract may be paid in a lump sum upon completion of the work. It also may be paid in draws valued at up to 60 percent of work in place. Bonded contractors may receive draws of up to 90 percent of work in place. This practice is designed to protect the family against intervening liens.

J. Construction Inspections

Rural Development will perform a final inspection when the work is completed. Full inspections are required when new construction such as room additions are involved, and Rural Development

will perform periodic construction inspections as needed (Instruction 1924-A). Any deficiencies in the contractor's performance are noted and Rural Development will insist that they be corrected before any further payments are made. It should be noted that Rural Development inspections are done to protect the security interest of the government. Rural Development's position is that homeowners are responsible for making/arranging inspections to protect their interest.

K. Insurance

Rural Development will counsel Section 504 applicants regarding insurance and encourage them to obtain adequate insurance. Flood insurance is required for loans and grants exceeding \$5,000 when the property is located in Special Flood Hazard Areas designated by the Federal Emergency Management Agency. (Rural Development determines whether a home is in such an area.) Real property insurance is required when the Rural Development assistance exceeds \$15,000.

L. Escrow of Taxes and Insurance

Escrow is required either through Rural Development or another lender, when the 504 loan is \$15,000 or more.