

# Property Eligibility

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## APPRAISAL INFORMATION

- Lenders may use their own properly licensed or certified appraisers for completing appraisals on property financed with a GRH loan.
- *It is recommended that lenders use a FHA roster appraiser for the completion of both the appraisal and the property's HUD Handbook certification. This will be more cost effective for the applicant and in many cases, result in timelier loan closings. Non FHA roster appraisers are often reluctant to complete the HUD Handbook certification that is required by Rural Development.*
- A list of FHA roster appraisers is available at: <https://entp.hud.gov/idapp/html/apprlook.cfm>.
- The complete appraisal using the URAR (Form 1004) format with all attachments is required, including the 1004 MC. Lenders should obtain a duplicate set of clear photos from the appraiser so that their original file and the Rural Development file both have a set. Digital photos are acceptable. Lenders may email a copy of the appraisal to Rural Development if they wish. Refer to the [Administrative Notice \(AN\)](#) for more information on appraisal formats.
- Appraisals should be done on an "as improved" basis to reflect the value of the property meeting the HUD Handbook 4150.2 and 4905.1 requirements.
- The appraisal must be less than six months old for home purchase transactions and less than one year old for refinance transactions (requires appraiser re-certification).
- The cost approach section of the appraisal must be completed in its entirety when the dwelling is less than one year old. A Marshall and Swift cost approach analysis is not required.
- Appraisals must contain at least 3 comparable sales that are less than 1 year old. The gross and net appraisal adjustments must be conforming with conventional underwriting and USPAP guidelines.
- Rural Development adopted the new Fannie Mae and Freddie Mac Uniform Appraisal Dataset (UAD) effective September 1, 2011. All appraisals completed on or after January 1, 2012 must be UAD compliant.

## AREAS ELIGIBLE IN WI

- Property must be in an eligible rural area or community. Generally, these are communities of fewer than 10,000 persons except that certain communities between 10,000 and 25,000 population are considered rural based on their distance from urban areas.
- Click [Maps](#) to view the county maps showing the areas eligible for GRH financing in Wisconsin. Milwaukee County is ineligible for Rural Development's single family housing programs.
- Eligible areas for all states, including the ability to verify a specific property address, can be found on the [USDA Income and Property Eligibility](#) site.

## CONDOMINIUMS

- Condominium projects are acceptable to Rural Development when the LENDER has researched and will warrant to Rural Development that they have reviewed condominium documentation, and that the condominium meets the requirements of HUD, Fannie Mae, Freddie Mac, or VA and that the documentation remains available in the lender's permanent case file for verification purposes.
  - The documentation containing the information necessary to determine if a condominium would be approved by HUD, Fannie Mae, Freddie Mac, or VA includes:
    - A condominium questionnaire, and
    - The condominium's master hazard insurance policy
  - Lenders may simply state the project classification on the 1008 "Uniform Underwriting Transmittal Summary" or similar document that the lender certifies that the condominium unit meets the requirements.
- Small residential condominiums that are **not** served by a home owners association (HOA) based on the condominium documents, may be eligible for GRH financing. *(The lender's underwriter must determine the acceptability of the project's condo documents.)*

## ENVIRONMENTAL ISSUES



- Lenders must submit FEMA Form 81-93, Standard Flood Hazard Determination, with each GRH loan application. Lenders typically obtain a life of the loan certification from the provider of the determination.
- Flood insurance is required anytime the foundation of any improvements is located in Zone A (100 year flood zone).

- Property located in unmapped areas (Zone D) or in non-participating communities where the risk of flooding is unknown, may be eligible based on the lender's analysis of the flooding history in that area.
- More information about FEMA, including Letters of Map Revision (LOMR) and Letters of Map Amendment (LOMA) can be found at: <http://www.fema.gov/about/divisions/mitigation.shtm>.
- Properties with underground storage tanks (residential use) must be registered with the State of Wisconsin Safety and Buildings Division. Abandoned underground storage tanks must be removed from the site.
- Properties with asbestos on the interior of the dwelling (typically found on the heating ducts in older homes) must have the asbestos material encapsulated or removed by a qualified individual.
- Since homes built prior to 1978 may contain lead-based paints, lenders should ensure that their applicants have received a copy of Addendum S – Lead Based Paint Disclosures and Acknowledgements, as part of their Offer to Purchase.
- Any peeling, flaking or chipped paint noted in the appraisal or "Existing Dwelling Inspection Report" must be abated in accordance with HUD guidelines.
- The EPA pamphlet, "Lead in Your Home: A Parent's Reference Guide," provides good information on this issue and is available by clicking [here](#).

### ESCROWS - REAL ESTATE TAX & HAZARD INS.

- Lenders are required to collect and maintain monthly escrows for real estate taxes and hazard insurance.

### ESCROWS - REPAIR

- Lenders may escrow 1 ½ times the bid amount for materials and labor to complete exterior weather delayed repairs only.
- The escrow agreement must be based on a signed contract and allow for completion of the work within 120 days of the work commencing.

- The home must meet decent, safe, and sanitary requirements at the time of closing. *(For example: It would not be permissible to escrow for repairs if an existing septic system has failed or if the water test indicated "unsafe".)*
- Rural Development will issue the Loan Note Guarantee to the lender prior to the completion of the required repairs if a proper escrow account has been established.
- Dwelling repairs required by Rural Development on the Conditional Commitment must typically be completed prior to closing. Underwriters, at their discretion, may allow for the completion of repairs after closing, but prior to the issuance of the Loan Note Guarantee by Rural Development.

## EXISTING HOMES

- For all existing homes (more than 12 months old or previously occupied) inspections must be obtained to verify that:
  - The property must meet the requirements of **HUD Handbooks 4150.2 and 4905.1**. These handbooks can be viewed at the following web site: <http://portal.hud.gov/hudportal/HUD?src=/groups/lenders>.
  - Appraisers should certify that a property meets the requirements of the HUD Handbooks 4905.1 and 4150.2 on page 3 of the appraisal form in the comment section, in an addendum to the appraisal, or using the optional "Existing Dwelling Inspection Report" form.
- It is recommended that you contract with a **FHA roster appraiser** to do the home appraisal and RD Inspection. The FHA roster appraiser must complete the appraisal in URAR format to document that the dwelling meets the HUD handbook requirements for an existing home. For more information, refer to the [Administrative Notice \(AN\)](#).
- A list of FHA roster appraisers is available at: <https://entp.hud.gov/idapp/html/apprlook.cfm>.
- If an appraiser calls for an additional inspection, such as for electrical, septic, well, furnace, foundation or roof, that inspection must be obtained and be satisfactory.
- Any repairs needed to meet the requirements of HUD Handbook 4150.2 and 4905.1 must be completed before Rural Development can issue a Loan Note Guarantee on the loan. However, the loan can be approved and the Conditional Commitment can be issued subject to the completion of the repairs.



- The Lender, applicant, and seller must work out a plan for completing the required repairs. It is quite common for underwriters to require the completion of all interior repairs prior to closing.
- Any repairs that are completed with GRH loan funds must include a written estimate for materials and labor as part of the underwriting package. A re-inspection will be required to document the work was actually completed.
- Rural Development is not looking to correct minor cosmetic problems. The appraiser / inspector should understand that the thermal, mechanical and structural components of the home should be evaluated to determine the property's compliance with the HUD Handbooks.
- When refinancing an existing Rural Development GRH or Direct 502 loan, the lender must confirm the property meets or continues to meet the current requirements of HUD Handbook 4150.2 and 4905.1.

## MANUFACTURED HOMES



- Existing manufactured (HUD code) homes **are not permitted** unless they are already financed by Rural Development (GRH or Direct 502 loan).
- Underwriters (and appraisers) must determine whether the unit is a "manufactured" or a "modular" home. There are no restrictions on a modular home, even though they are built off-site. Modular homes must meet all the same Uniform Dwelling Code (UDC) requirements as "stick built" homes.
- Existing homes that have the characteristics of a manufactured home must be underwritten carefully to verify that the home (or any part of the structure) is not a manufactured (HUD code) home. Some appraiser comments or characteristics to watch for include: mobile / manufactured home appearance, presence of FMHCSS tag on the dwelling, floor plan, slab or pier foundation, presence of skirting, presence of feature board walls, presence of metal structural components, evidence of ownership is a title, furnace and water heater is located on the main floor, etc.
- New manufactured homes must be purchased, installed and warranted from an Agency approved **Dealer – Contractor**. Click [here](#) to view a list of Dealer – Contractors approved for Wisconsin in the GRH Forms section. Dealers not listed on our approved list should contact any Rural Development office for the application and requirements for becoming an approved Dealer - Contractor.

- Dealer – Contractors must use a single construction contract to include the purchase of the home, installation of the home on a permanent foundation, and any other site development work. No “do it yourself” work by the applicant is allowed. The Dealer – Contractor must provide a 12 month warranty on all work completed under the construction contract, including the work completed by their sub-contractors. *(Refer to the previous section "New Home Financing & Construction Docs." for information on lender file documentation.)*
- The set up requirements for Rural Development are different than those of FHA/HUD or WHEDA. The manufactured home must be financed as real estate along with the site.
- The home must be permanently installed on the site with all running gear and towing equipment removed.
- All foundation types and plans must be **Wisconsin UDC approved**. A list of state approved Uniform Dwelling Code (UDC) inspectors can be obtained in the Safety and Buildings section of this web site: <http://www.commerce.state.wi.us/>.
- Acceptable types of foundations for manufactured homes include full basements, crawl spaces, and concrete slabs. All foundation perimeters must be enclosed with a permanent building material such as concrete, cement blocks, or treated wood. In no cases will metal or vinyl skirting be accepted.



## MODULAR HOMES

- Modular homes are designed and constructed to meet all requirements of the Wisconsin Uniform Dwelling Code, the same as site-built construction. This is not the same development standard used for manufactured homes, “double-wides”, or mobile homes, which meet a national safety and construction standard often referred to as HUD code.
- GRH loans on new or existing modular homes are processed the same as stick-built homes.
- Some of the common manufacturers of modular homes found in Wisconsin include, Design Homes, Terrace Homes, Wausau Homes, Stratford Homes, Pittsville Homes, Amwood Homes, Wick Homes, and Wisconsin Homes.

## NEW HOME FINANCING & CONSTRUCTION DOCS.

Lenders are required to obtain new construction documentation (see bullets below) in accordance with the [Administrative Notice](#) on this topic and retain that information in their borrower file.

### **New Construction: Evidence of Certified Plans and Specifications - RD Instruction 1980.340(b)(1)**

**New dwellings have been built for less than 12 months and have never been occupied.**

- The lender must retain evidence that a new construction home was built in accordance with certified plans and specifications (e.g., International Residential Code, CABO, BOCA, etc.).
  - One of the following combinations must be retained by the lender as evidence:
    - 1. Copy of an eligible building permit that has been issued by an approved local jurisdiction. The State Director is responsible for making the determination of an “eligible jurisdiction” per RD Instruction 1924-A, section 1924.5(f)(1)(iii)(c)(2). This determination must be published by the state as a supplement; **or**
    - 2. Certificate of Occupancy or completion certificate issued by an approved local jurisdiction as determined by the State Director and published; **or**
    - 3. Certification from a qualified individual or organization (e.g., licensed architect, engineer, national code certified plan reviewer, local building official, etc.) that has reviewed the plans and specifications, and determined they meet all applicable building codes and development standards. If the reviewer does not have their own certification form, Form RD 1924-25 “Plan Certification,” may be used.

### **New Construction: Evidence of Construction Inspections/Warranty - RD Instruction 1980.341(b)(2)**

**New dwellings have been built for less than 12 months and have never been occupied.**

- The lender must retain evidence that construction inspections were performed throughout the project in accordance with section 1980.341(b)(2).
  - Acceptable evidence may include one of the following:
    - 1. Certificate of Occupancy issued by an eligible local jurisdiction as determined by the State Director and published, after a minimum of 3 construction inspections were performed and a 1-year builder warranty plan issued acceptable to RD; **or**
    - 2. Copies of 3 construction inspections performed when: (1) footings and foundation are ready to be poured (2) shell is complete, but

plumbing, electrical and mechanical work is still exposed and (3) final inspection of completed work prior to occupancy and a 1-year builder warranty plan issued acceptable to RD; **or**

- 3. Final inspection and a 10-year insured builder warranty plan acceptable to Rural Development per RD Instruction 1924-A Exhibit L.

- Rural Development only requires a copy of the appraisal to be submitted with the application package. Approval will be subject to obtaining a "Certificate of Completion" (if applicable).
- The Agency forms listed above including the [EOC Addendum](#) can be downloaded from the [New Construction](#) page in the Loan Origination section.
- For properties lacking the documentation described above, financing is limited to 90% loan to value (LTV).

## SITE AND BUILDING REQUIREMENTS

Refer to the national regulation RD Instruction [1980-D](#), paragraphs 1980.312-1980.314 for more information.

- Click [Maps](#) to view the county maps showing the areas eligible for GRH financing in Wisconsin.
- No in-ground swimming pools are permitted. Exceptions can be considered on a case by case basis. Any value attributed to pools will be deducted from the appraised value since they are viewed as personal property.
- Dwellings financed should be of a residential nature and not closely associated with farm service buildings or commercial / industrial property. *(Underwriters typically expect reasonable zoning compliance. A good rule of thumb is that homes lacking residential zoning should be bordered on three sides by residential types of property.)*
- Income producing structures (including side by side duplexes) or land cannot be financed. Other structures of a storage nature (with low contributory value) are allowed.
- Rural Development does not have a defined number of acres of land that would make a property ineligible for a Guaranteed loan, however Rural Development does have a site value limit.
  - Site values that are 30% or less require no further action or comments from the appraiser as the site meets RD Instruction 1980-D. This is assuming there are no income producing qualities of the acreage.
  - Site values that exceed 30 percent will require further explanation from the appraiser.

- The appraiser must determine if the site is typical for the area. A site that is typical for the area must include comparable properties that have similar acreage thereby supporting the appraisers comments.
  - The appraiser must also ensure the site cannot be subdivided into two or more separate parcels.
  - Acreage must also be non-tillable or income producing. Land that can be utilized for income producing purposes will be ineligible for a Guaranteed loan.
- Properties that have buildings or equipment for specific income producing purposes will be ineligible for a Guaranteed loan. (Examples of buildings or equipment may include but is not limited to: grain bins, silos, dairy farm equipment and buildings, hog barns, and large/multiple horse stables.)
  - Properties with large farm service buildings that are non-essential to the goal of achieving homeownership are not eligible for a Guaranteed loan. (An example of a large farm service building would include those capable of housing farm service equipment such as combines, tractors, trailers, harvesters, etc.)
  - Properties that have wind mills/wind turbines or cell phone towers located on the property will be ineligible for a Guaranteed loan due to the rental payments homeowners receive for allowing these structures to be present on the property.
  - Property must be contiguous to and have direct access from a street, public road, or driveway. Streets and roads must be hard surfaced or an all weather surface (i.e. not a single lane dirt road). Shared driveways are permitted as long as the access to the property is transferable with the title to the property.
  - Property with non-conforming features such as: only 1 bedroom; small square footage of the site or dwelling, slab foundation, log homes, A frames, dome homes, etc. or homes with other types of functional obsolescence; may not be suitable for GRH financing. The appraisal must be made using similar comparable sales (i.e. having the same features) with acceptable gross and net adjustments and a similar value per square foot of living area.

**SPECIAL ASSESSMENTS**

Special assessments for work on the site actually commenced or levied prior to the date of the Offer to Purchase shall be paid by the seller, in most cases. If assumed by the buyer, properties with unpaid special assessments for site improvements, street improvements, or connection to municipal sewer and

water systems are limited to 102% LTV based on the proposed loan amount and the unpaid balance of the special assessment.

The buyer can assume the seller's unpaid special assessment as long as the total LTV does not exceed 102%. (The 102% LTV assumes the financing of the 2% Rural Development guarantee fee with the purchase transaction.)

## WELL AND SEPTIC INSPECTIONS



- Lenders are responsible for determining the decent, safe, and sanitary condition of the property prior to closing through the use of inspections from properly licensed individuals, including FHA roster appraisers.
- Private Septic System:
  - 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.
    - If the appraiser or inspector who visits the property notes that there IS observable evidence of system failure and orders a third party inspection, then the lender must have an additional inspection of the septic completed.
      - The lender does not have to submit the septic inspection report to Rural Development. The 1980-D Instruction states the lender will ensure the system is acceptable and will retain evidence in their permanent case file.
- Private Well/Water Supply:
  - The local health authority or state certified laboratory must perform a water quality analysis. The water quality must meet state and local standards. The Safe Water Drinking Act does not apply to private wells. Contact the EPA at (800) 426-4791 for referrals to certified labs and other inquiries.
    - The lender does not have to submit the well test to Rural Development. The 1980-D Instruction states the lender will obtain an acceptable water test and retain it in their permanent case file.
- Wells with unsafe levels of nitrates will require the installation of an individual water treatment system that has been approved by the State of Wisconsin. Lenders must verify that an acceptable water treatment system has been installed. The Wisconsin Department of Commerce maintains an

Approved Plumbing Products Register at their website. The register is updated frequently and can be found at the following website:

<http://www.commerce.state.wi.us/SB/SB-PubsPlumbProdReg.html>

- Shared wells located on the subject property are permissible as long as the existing shared well agreement contains no adverse clauses. A shared well that is not located on the subject property may be acceptable if a HUD Shared Well Water Agreement is signed by all parties and is properly recorded. Click [well agreement](#) for a copy of the HUD Shared Well Water Agreement.
- Approved lender's underwriters may also request any additional inspections they feel necessary in order to ensure the collateral is acceptable.

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