



**United States Department of Agriculture
Rural Development**
Michael W. Aube - State Director

September 20, 2004

To All Approved Lenders
New England States

Dear Approved Lender:

In order to promote Rural Development's Guaranteed Single Family Housing Program in New England, we have received approval for a pilot program where planned development funds for property repairs can be escrowed by the lender. This change will allow lenders to expand the RD Guarantee product to include properties being rehabilitated after loan closing and get the RD Loan Guarantee up front.

When a lender wants to set up an escrow fund for repairs, Rural Development can waive existing regulations that pertain to escrow limitations (Section 1980.315). Our waiver will allow lenders to do the following items subject to the conditions stated below:

- ◆ The work may be for interior or exterior development.
- ◆ The incomplete work may not affect the livability of the dwelling, nor the health or safety of the housing occupants.
- ◆ The Lender must establish and fund an escrow account in an amount equal to at least 100 percent of the estimated cost to complete the planned development. This amount may be higher if the Lender or Rural Development loan approval official determines a higher amount is needed.
- ◆ A signed contract providing for completion of the planned development within 180 days of loan closing must be in place.
- ◆ If the borrower will be completing the planned development without the services of a contractor, the Rural Development loan approval official may waive the requirement for a signed contract in cases in which the following 3 conditions are met:
 1. The estimated cost to complete the work is less than 10% of the total loan amount, **and**
 2. The escrow amount is less than or equal to \$5,000, **and**
 3. The Lender has determined that the borrower has the knowledge and skills necessary to complete the work.
- ◆ The Lender may release escrowed funds only after obtaining a final inspection report, acknowledged by the borrower that indicates all planned development has been satisfactorily completed.

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Committed to the future of rural communities

Rural Development is an Equal Opportunity Lender, Provider, and Employer. Complaints of discrimination should be sent to USDA, Director, Office of Civil Rights, Washington, D. C. 20250-9410

- ◆ The Lender must submit a completion certificate on all planned development to Rural Development within 30 days after the completion of the repairs. The final completion certificate must indicate that all repairs indicated on the property inspection report and/or development contract have been completed.
- ◆ The Lender must apply any loan funds remaining after the planned development is completed, as a principal reduction on the loan, with no cash to the borrowers.
- ◆ All other provisions of RD Instruction 1980-D must be satisfied.

Rural Development approval of the escrow account for planned development will allow you to submit your loan closing prior to all work being completed, and will allow us to issue your Loan Note Guarantee shortly after closing. This will in turn allow lenders to deliver their loan in a more timely and profitable fashion to the secondary markets.

Originating lenders will be responsible for ensuring that all escrow development work is completed and all escrow funds are properly disbursed. Failure to do so could impact loss claim payments for the affected loans.

Attached to this letter is the form you should use to request approval of the waiver. Your request must be submitted to the appropriate Rural Development office PRIOR to issuance of the Loan Note Guarantee by Rural Development.

We hope this pilot program assists you in meeting the needs of the low and moderate income applicants in your area, as well as allowing us to provide better service to our approved lenders. If you have any questions concerning this program, please contact your local Rural Development Office.

Sincerely,

/s/ Michael W. Aube

MICHAEL W. AUBE
State Director
Maine

Attachment: New England Escrow Waiver Request form