



United States Department of Agriculture
Rural Development

MAR 29 2007

TO: Rural Development State Directors

ATTENTION: Single Family Housing Program Directors

FROM: David J. Villano
Deputy Administrator
Single Family Housing

A handwritten signature in black ink, appearing to read "David J. Villano", written over the typed name and title.

SUBJECT: Homeownership Education Requirement
Questions and Answers

We have received a number of questions from different state offices regarding the homeowner education requirement that has an effective date of May 7, 2007. Many of the issues in these questions and the corresponding answers may have relevance to other state offices, as they implement the homeownership education requirement. Questions we have received to date are listed below in this "Q & A" document for distribution.

Q & A

Q.1 Given the effective date of May 7, 2007, what should we be telling our applicants now?

A. Applicants should be informed of the new homeownership requirement. First-time homebuyers who have not received a certificate of eligibility as of May 7, 2007, will be required to take homeownership education before they close on their loan. Applicants should be informed of the homeowner education requirement as early in the process as feasible. To get the maximum benefit, applicants should take the training before they search for a home to purchase. This may not always be possible but it should be our goal.

EXPIRATION DATE:
March 31, 2008

FILING INSTRUCTIONS:
Housing Programs

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Q.2 Will every applicant be required to take the training when the rule becomes effective on May 7, 2007?

A. Applicants who are first time homebuyers and have not been issued a certificate of eligibility as of May 7, 2007 will have to complete a homeownership education course and provide documentation of completion prior to closing on their loan.

Q.3 Who is a first time homebuyer?

A. First-time homebuyer is defined the same as it is for the SFH Guaranteed Loan Program (GLP). The definition is being added to the Glossary section of HB-3550-1 and will be in the field prior to May 7, 2007. A first-time homebuyer is defined as an individual who (and whose spouse) has had no present ownership in a principal residence during the 3 year period ending on the date of purchase of the property acquired with a Section 502 direct loan. A first-time homebuyer includes displaced homemakers and single parents even though they might have owned, or resided in a dwelling with a spouse.

Q.4 If a new applicant that we have never talked to before comes into a field office with a certificate of completion from an on-line homeownership education course and there is a free classroom course available, do they have to take the classroom course?

A. If the free classroom course is accessible, the applicant should be advised of the preferred course formats and that on-line courses are only acceptable by exception from the State Director, if a classroom or other preferred format is unavailable. The concern here is that we do not want applicants to start taking on-line courses before coming to the field office as a way of getting an exception.

Q.5 How will we inform applicants that they must complete a homeownership education course before they can close on a loan?

A. We strongly encourage that applicants be informed of the homeownership education requirement at first contact. Moreover, when engaged in marketing and outreach efforts staff should be sure to include notice of the new homeownership education requirement.

Better informed home buyers generally make better decisions.

Modifications are being added to the Certificate of Eligibility, the Funding Commitment and the Applicant Orientation Guide to provide a place for reinforcing the education requirement and will be in the field prior to May 7, 2007.

Q.6 Are field offices going to be required to monitor applicants to determine if they have completed the homeownership education course before closing on the loan?

A. No. There are several points during the application and approval process where the Loan Originator will be advising the applicant of the requirement to provide documentation of completion of homeownership education at closing of the loan. We should always emphasize that the earlier in the process the education is taken, the more valuable it will be.

Q.7 Will we reject applicants for failure to take the training?

A. No, but they cannot close on the loan without documentation of completing homeownership education.

Q.8 We have been approached by an organization that proposed to offer homeowner education in response to our new requirement. The question of fees has come up. How should we be handling this?

A. Rural Development implemented the homeowner education requirement at this time because we believe that free or low cost training is already available in most areas. We recognize that not every rural area is covered. The primary purpose of the state-wide assessment of homeownership education resources is for States to ascertain the availability of free and nominal fee training within their respective states. Thereafter, the expectation is that applicants will be first referred to free and nominal fee homeownership education courses where available. When a fee is charged, it is the responsibility of the applicant.

Q.9 Which on-line courses are approved?

A. We are still in the process of reviewing on-line courses. Our current thinking is that we would like to limit the number of on-line courses approved to maximize consistency and to keep the requirements simple at this time.

We are in the process of coordinating a review panel that will evaluate several on-line courses to determine if they are suitable. We anticipate that several on-line courses will be approved and that all states will use the same approved on-line courses. Limiting the on-line courses will promote uniformity and consistency of usage among the states of on-line counseling and facilitate future monitoring of applicant's who used on-line courses versus the other formats.

There was some discussion that MoneySmart would be the on-line course used but no final decisions have been made at this time.

Q.10 My State has an on-line course that is sponsored by our State Housing Agency (or another local entity). Will this be allowed?

A. At this point, we do not have much information about on-line courses that are state-specific. Therefore, our current policy is that if a state-specific on-line course is administered by a certified state-level provider, then it will be acceptable. For example, the State of Virginia has an on-line course that is administered by their state housing finance agency, the Virginia Housing Development Authority. It is a restricted website and only accessible by password that is received by the applicant once the applicant demonstrates they could not take a classroom course.

Q.11 We have heard that the National Office has allowed a \$400 dollar homeownership course fee. Is this true?

A. No. The \$400 dollar amount was an amount on the higher end of the fee scale mentioned by a commenter on the Proposed Rule on homeownership education. The expectation is that states will identify free or nominal fee (\$50 or less) courses for referral to applicants. Most of our clients will not want to incur a \$400 expense or pay more than a nominal amount to take a homeownership education course. We do not expect to see very many applicants take courses that cost more than a nominal amount and an applicant should not add the fee amount to their loan unless it is absolutely necessary. However, if the only classroom course available is \$400; this may be a case where it would be prudent to consider an exception.

Q.12 Should the State Guidance be in the form of a State supplement to HB-3550-1 or Administrative Notice?

A. We would prefer a State supplement but will accept an Administrative Notice.

Q.13 Do States have to send in a new supplement to the State Instruction to add new counselors or will State Directors be authorized to add counselors to the list?

A. State Directors will be authorized to add counselors to the list, however, notice should be sent to the National Office for prior approval. At some point, when we get past the implementation period, we expect to provide more flexibility to the States.

Q.14 If a customer elects to pay for their homeownership education fee when they close on their loan but ultimately does not close on their loan, how does the fee get paid?

A. The customer is ultimately responsible for payment of the homeownership fee regardless of what arrangements have been made. They should be advised that if they do not close on their loan, they will still be responsible for the homeownership education fee. We included this provision as a means to maximize flexibility; however we should be encouraging the applicants to take advantage of free or low cost education sources, and other sources of funding to the extent available.

Q.15 At what point does a certificate of completion (or letter from a provider) of homeownership education become too old to accept?

A. Generally speaking, an otherwise valid certificate or letter that is less than one year old is acceptable.



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Rural Development**

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APR 13 2007

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SUBJECT: Homeownership Education Requirement
Questions and Answers

We have received additional questions from a few state offices regarding the homeowner education requirement that has an effective date of May 7, 2007. A few of the questions we have received since distribution of the last Q & A dated March 29, 2007 are listed below in this document for distribution.

HOMEOWNERSHIP EDUCATION Q & A

Q.1 What is the definition of a displaced homemaker?

A. A displaced homemaker includes but is not limited to a divorced person, a legally separated person, and a person who is estranged and not living in the same residence as their spouse due to various reasons, such as a domestic violence situation.

EXPIRATION DATE:
April 30, 2008

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However, in the context of whether an applicant should take homeownership education, a further assessment should be done by RD staff. Since the definition of first-time homebuyer derives from the Cranston-Gonzalez Affordable Housing Act, the intent of the definition as used by the FHA program and the RD Guaranteed Loan Program is broad and is designed to be inclusive to enable individuals to take advantage of programs targeted toward first-time homebuyers.

Therefore, RD staff should ascertain how an applicant answered Question m, "Have you had ownership interest in a property in the last 3 years?" which is found on page 4 of the loan application in the Declaration section.

Q.2 Is it permissible to add homeownership education fees to the loan amount in excess of the appraised value of the house?

A. Yes. Both the final rule and the upcoming HB-1-3550 revisions have language that allows the fee in the loan amount in excess of the appraised value of the house and the area loan limits under Sec. 3550.63 in cases where the applicant requests to pay for the cost of the homeowner education by adding it to the loan amount. However, as previously stated, our referral should be to low- or no-cost training. The applicant is ultimately responsible for the fee regardless of whether it is to be included in the loan.

Q. 3 The only classroom training for homeowner education that is available in my area on a timely basis exceeds the nominal cost provisions. What are the options for the applicant if the fee for homeownership education in a classroom environment is above the nominal fee amount?

A. If the fee for classroom homeownership education is above the nominal fee amount then the Loan Originator should consider requesting an exception for the applicant to take on-line counseling.