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## Could your clients benefit from USDA's Rehab/Repair Guaranteed Loan Feature?

Buying a brand-new home can be very expensive, especially in today's market. In some cases, it is outright unattainable for many working families and individuals. In these times, maybe buying an existing home could make more sense. But what if that home needs just a little TLC-tender loving care, or is even in poor shape? Fans of the popular TV shows depicting home renovations would know what to do! [Rehab it!](#)

Did you know that USDA's Guaranteed Single Family Housing Rehab/Repair loan feature is helpful to your borrower *and* minimizes your risk in the loan? It does! USDA's backing of the loan, the Loan Note Guarantee, is issued just after the one-and-only loan closing, before repairs are completed, reducing risk for Lenders. And for many of your clients this could be just the ticket to get them into their own, more affordable home – with no money down! It is even possible to include a reserve to make the house payments from loan funds for up to 6 months as the work is being completed, saving your Borrower from having to make rent payments plus the house payment during the Rehab.

The idea is behind this loan feature is that a single loan covers the purchase price plus the cost of repairs and closing costs (up to the as-improved market value) – all in one loan-closing!

The borrower obtains one loan at a fixed interest rate to finance both the acquisition and the rehabilitation of the property. The loan is guaranteed by USDA after the loan has closed, prior to the completion of the repairs, which minimizes the risk to the lender. There is no need for the borrower to shop around for a separate rehab loan after the purchase. Nice!

### There are 2 options with this feature:

**1 – [Non-structural repairs up to \\$35,000](#):** Borrowers may finance up to \$35,000 for repairs such as those identified by a home inspector or appraiser. There is no required minimum repair amount. The repairs must be non-structural, and the home must be considered habitable at the time of closing to be eligible for this feature. Since the dwelling is habitable, the loan is not eligible for reserve accounts for PITI payments during the construction period.

**2 – [Structural repairs and repairs exceeding \\$35,000](#):** This feature allows borrowers to finance structural repairs or improvements greater than \$35,000 for extensive rehabilitation. If the dwelling is not habitable at the time of closing, reserves for principal, interest, taxes and insurance may be established to cover the mortgage payments for up to 6 months or until the home is determined to be habitable by a third-party inspector deemed qualified by the lender during the construction period.

Eligible properties must have been completed for 12 months or more. There are certain prohibited loan purposes (installing in-ground swimming pools/hot tubs/saunas, repairs to manufactured homes/condos, converting non-residential buildings to residential use, etc.). Eligible loan costs may include removing health and safety hazards, making dwellings accessible for persons with disabilities, additions to an existing home, modernizations, etc. In addition to typical soft costs, a repair contingency reserve, PITI payments for up to 6 months, and inspection/consultant fees may all be included in the loan (up to the as-improved appraised value, of course).

Lenders and contractors must have at least 2 years' experience administering construction loans. Additional lender/contractor requirements apply. Originating lenders do not need to have this construction experience if the servicing lender will administer the construction phase. The lender engages an inspector/consultant (deemed qualified by the lender) to evaluate the property, write up necessary repairs, conduct periodic inspections, and act a liaison between the borrower, builder and lender. The use of an inspector/consultant is not required for non-structural repairs of \$35,000 or less. The construction period should typically not exceed 6 months, however, contract extensions may be approved by the lender (but please keep in mind the PITI reserve is limited to 6 months). New structures or additions must comply with local codes and applicable national codes. See [HB-1-3555, Chapter 12](#) for additional details.

Specific USDA approval is not required for Lenders to use this loan feature. All USDA-approved lenders may self-certify to meeting the specific requirements. So, if this is something that would work for your clients, help get the word out about it and start increasing your client base today!