
TABLE OF CONTENTS

	Page
CHAPTER 1: OVERVIEW OF GUARANTEED RURAL RENTAL HOUSING PROGRAM ORIGINATION AND SERVICING HANDBOOK.....	1-1
1.1 Introduction.....	1-1
SECTION 1: THE HANDBOOK.....	1-1
1.2 Purpose.....	1-1
1.3 Using the Handbook	1-1
A. Handbook Symbols.....	1-2
B. Citations and Text Boxes.....	1-2
C. Attachments and Appendices.....	1-3
SECTION 2: THE RURAL HOUSING SERVICE (RHS).....	1-3
1.4 RHS Organization.....	1-3
SECTION 3: OVERVIEW OF THE GUARANTEED RURAL RENTAL HOUSING PROGRAM.....	1-3
1.5 Program Goals	1-3
1.6 Eligible Rural Area	1-4
1.7 Program Features	1-4
A. Risk Sharing with Lenders.....	1-4
B. Affordability Features.....	1-5
C. Combination Construction and Permanent Financing	1-5
D. Lender Origination, Servicing, and Disposition	1-5
E. The NOFA Process	1-5
1.8 Roles and Responsibilities of Agency, Lender and Borrower	1-5
1.9 Identity of Interests	1-6
1.10 Agency Exception Authority	1-7
1.11 Reviews and Appeals.....	1-8
SECTION 4: FEDERAL REQUIREMENTS	1-9
1.12 Intergovernmental Review.....	1-9
1.13 National Flood Insurance Program.....	1-9
1.14 Historic Preservation.....	1-9

1.15 Civil Rights 1-9
 A. Nondiscrimination 1-9
 B. Reasonable Accommodations for Persons with Disabilities 1-10
1.16 Fair Housing 1-10
1.17 Environmental Requirements..... 1-11

Attachment 1-A: Review and Appeals of Adverse Agency Decisions

CHAPTER 2: LENDER ELIGIBILITY AND APPROVAL..... 2-1
 2.1 Purpose and Overview 2-1
 SECTION 1: LENDER ELIGIBILITY 2-2
 2.2 Purpose..... 2-2
 2.3 Requesting Lender Approval 2-2
 2.4 Basic Eligibility Test Requirements 2-2
 2.5 Demonstrated Eligibility Test Requirements..... 2-3
 2.6 Approval Requirements 2-3
 A. Origination and Servicing Plan..... 2-3
 B. Demonstrate the Lender’s Financial Stability 2-5
 C. The Lender’s Certification to Comply with Program Requirements..... 2-5
 2.7 Additional Requirements for Approval to Originate and Service
 Combination Construction/Permanent Loans 2-5
 2.8 Participation by Lenders without Demonstrated Ability 2-6
 SECTION 2: LENDER APPROVAL PROCESS..... 2-6
 2.9 Overview..... 2-6
 2.10 Agency Assessment of the Request 2-6
 2.11 Submission Requirements — Lender Application 2-6
 2.12 Issuance of Approved Lender Status 2-7
 SECTION 3: MAINTENANCE OF LENDER APPROVAL 2-8
 2.13 Requirements for Retaining Approved Status 2-8
 SECTION 4: OTHER ISSUES..... 2-9
 2.14 Substitution of Lender 2-9
 2.15 Use of Agents and Brokers by the Approved Lender..... 2-9
 2.16 Loan Participations 2-10
 2.17 Transfer of Servicing 2-10

CHAPTER 3: LENDER UNDERWRITING	3-1
3.1 Introduction.....	3-1
SECTION 1: LENDER UNDERWRITING RESPONSIBILITIES	3-1
3.2 Overview.....	3-1
3.3 Summary of Lender Responsibilities.....	3-2
SECTION 2: LENDER NARRATIVE	3-2
3.4 Narrative Requirements	3-2
SECTION 3: BORROWER ELIGIBILITY	3-3
3.5 Overview.....	3-3
3.6 Eligible Borrowers.....	3-3
3.7 Ineligible Borrowers	3-4
3.8 Borrower Types	3-4
A. General or Limited Partnerships	3-5
B. Corporations.....	3-6
C. Limited Liability Companies	3-7
D. Trusts	3-7
E. Public Agencies	3-7
F. Indian Tribes	3-7
G. Individuals	3-8
3.9 Certification of Legal Eligibility.....	3-8
3.10 Borrower Experience and Capacity	3-8
A. Construction and Rehabilitation Experience	3-8
B. Property Management Experience.....	3-9
C. Financial Capacity	3-10
SECTION 4: PROPERTY REQUIREMENTS	3-11
3.11 Overview.....	3-11
3.12 Rural Area Designation	3-11
3.13 General Site Requirements	3-11
A. Public Facilities and Services	3-11
B. Less Desirable Areas	3-12
3.14 Site Standards	3-12
A. Applicable Codes.....	3-12
B. Adequate Utilities and Infrastructure.....	3-12

C. Grading and Drainage	3-12
D. Size and Shape	3-13
E. Undesirable Physical Conditions	3-13
3.15 Site Density	3-13
3.16 Non-Contiguous Sites	3-13
3.17 Site Control	3-14
A. Land Ownership	3-14
B. Land Lease	3-14
3.18 Environmental Requirements.....	3-15
A. Lender Responsibilities Prior to Requesting Guarantee	3-15
B. Agency Environmental Review	3-15
3.19 Civil Rights	3-16
3.20 Project Development.....	3-16
A. Project Size	3-16
B. Agency Construction Requirements	3-16
C. Federal Accessibility Requirements	3-17
SECTION 5: FINANCING TERMS.....	3-20
3.21 Overview.....	3-20
3.22 Occupancy and Rent Restrictions	3-20
3.23 Use of Loan Proceeds	3-21
A. Eligible Uses of Loan Proceeds	3-22
B. Ineligible Uses of Loan Funds	3-23
3.24 Applying Section 207(c) Loan Limits	3-24
3.25 Mortgage Terms.....	3-24
A. Maximum Loan Term	3-24
B. Maximum Interest Rate.....	3-25
C. Interest Reduction Credit	3-25
D. Maximum Loan Amount.....	3-25
SECTION 6: DETERMINING PROPERTY VALUE.....	3-26
3.26 Overview.....	3-26
3.27 Cash Flow Analysis	3-26
A. Operating and Maintenance Expense	3-26
B. Debt Service.....	3-27

3.28 Appraisal.....	3-29
A. Appraisal Requirements.....	3-29
B. Appraiser Qualifications.....	3-29
C. Appraisal Methods.....	3-29
D. Appraisal Report Guidelines.....	3-30
E. Market Study.....	3-30
CHAPTER 4: LOAN GUARANTEE APPLICATION PROCESSING.....	4-1
SECTION 1: AN OVERVIEW OF THE PROCESS	4-1
4.1 Purpose.....	4-1
SECTION 2: NOTICE OF FUNDING AVAILABILITY (NOFA)	4-1
4.2 Publication of GRRHP Requirements	4-1
4.3 Response to the NOFA	4-1
4.4 Information to be Included in Response to the NOFA	4-2
A. Descriptive Information.....	4-2
B. Lender Eligibility and Approval Status	4-3
C. Competitive Criteria	4-4
D. Lender Certification.....	4-4
4.5 Agency Review of NOFA Response	4-4
A. Was the Project Proposal on Time and Complete?.....	4-4
B. Is the Borrower An Eligible Entity?	4-4
C. Is the Lender Eligible?.....	4-5
D. Is the Proposed Project Eligible?.....	4-5
4.6 Scoring and Ranking.....	4-6
4.7 Notice to Proceed with Processing	4-6
SECTION 3: APPLICATION FOR THE GUARANTEE.....	4-7
4.8 Purpose of the Application	4-7
A. The Proposed Project Meets the GRRHP Threshold Requirements.....	4-7
B. The Proposed Project is Eligible to Receive a Conditional Commitment.....	4-8
4.9 Application Form and Documentation.....	4-8
A. The Lender’s Certification.....	4-8
B. Exhibits and Supporting Information to the Lender’s Certification	4-9
4.10 Interest Credit Request and Documentation	4-12
A. Amount of Interest Credit Subsidy	4-13
B. Demonstrated Need.....	4-13

C. Limits on Allocation of Interest Credit.....	4-13
D. Payment of Interest Credit	4-14
E. Cancellation of Interest Credit.....	4-14
F. Closing a Loan with Interest Credit.....	4-15
4.11 Lender Review of the Borrower Submissions	4-15
A. Borrower Eligibility	4-15
B. Project Eligibility	4-15
C. Project Feasibility Analysis	4-17
4.12 Agency Review of the Loan Guarantee Application	4-18
A. Determination that the Loan Guarantee Application Package is Complete ...	4-18
B. Environmental Review by Agency	4-18
C. Civil Rights Impact Analysis.....	4-18
D. Review of Other Federal Requirements.....	4-18
E. Review of Affirmative Fair Housing Marketing Plan (AFHMP).....	4-18
F. Decision on Interest Credit Subsidy Request	4-21
G. Decision on the Guarantee Amount.....	4-21
H. Determination that the Loan is Acceptable for a Conditional Commitment ..	4-21
4.13 Agency Decision.....	4-22
SECTION 4: ISSUANCE OF CONDITIONAL COMMITMENT.....	4-22
4.14 General Requirements.....	4-22
4.15 Terms of Conditional Commitment	4-23
A. Subsidy Layering Review	4-23
B. Guarantee Fee	4-23
C. Transactions Backed by Ginnie Mae	4-24
D. Termination of the Conditional Commitment.....	4-24
E. Substitution of Lender	4-24
F. Lender’s Agreement.....	4-25
G. Loan Note Guarantee Agreement	4-25
SECTION 5: RESPONSE TO THE	
CONDITIONAL COMMITMENT AND LOAN CLOSING	4-26
4.16 General Conditions	4-26
4.17 Development of the Regulatory Agreement	4-26
4.18 Loan Closing.....	4-26
SECTION 6: GUARANTEE DURING CONSTRUCTION.....	4-27
4.19 Combination Construction and Permanent Loan.....	4-27

SECTION 7: PERMANENT GUARANTEE..... 4-28
4.20 Occupancy..... 4-28
4.21 Documentation Requirements..... 4-28
SECTION 8: TERMINATION OF THE LOAN GUARANTEE..... 4-29
4.22 Reasons for Termination..... 4-29
 A. Repayment of the Loan..... 4-29
 B. Payment of a Claim..... 4-29
 C. Voluntary Termination of the Guarantee Agreement by the Lender..... 4-29
 D. Non-Compliance with Program Requirements..... 4-29
 E. Fraud 4-30

- Attachment 4-A: Sample -- Notice to Proceed with Application Processing
- Attachment 4-B: Sample --State Office Award Letter
- Attachment 4-C: Obligation Request for Section 538 Loans
- Attachment 4-D: Suggested Format for the Opinion of the Lender's Legal Counsel
- Attachment 4-E: Letter Notifying Lender of Incomplete NOFA Response
- Attachment 4-F: Closing Documents to be Submitted as Part of the Final Application
- Attachment 4-G: Housing Allowances for Utilities and Other Public Services
- Attachment 4-H: Planning Meeting Agenda

CHAPTER 5: CONSTRUCTION REQUIREMENTS 5-1
5.1 Introduction..... 5-1
SECTION 1: PRE-CONSTRUCTION CONFERENCE 5-2
5.2 Conference Requirements..... 5-2
SECTION 2: BASIC CONSTRUCTION REQUIREMENTS 5-2
5.3 Overview..... 5-2
5.4 Construction Contractor Experience and Capacity..... 5-3
5.5 Debarment and Suspension..... 5-3
5.6 Architectural Services..... 5-3
5.7 Plans, Specifications and Cost Estimates 5-4
5.8 Environmental Requirements..... 5-5
5.9 Construction..... 5-5
5.10 Inspections 5-6
5.11 Warranty 5-7
5.12 Construction Requirements Certification 5-7

SECTION 3: GUARANTEES OF CONSTRUCTION ADVANCES	5-9
5.13 Overview.....	5-9
5.14 Insurance.....	5-9
5.15 Sureties.....	5-10
5.16 Letters of Credit.....	5-10
5.17 Payment Procedures.....	5-11
5.18 Contract Change Orders.....	5-11
5.19 Modification of Maximum Amount Guaranteed During Construction.....	5-12
5.20 Reporting During Construction Period.....	5-12
5.21 Final Payment.....	5-13
5.22 Certification that Additional Requirements Have Been Met.....	5-14
SECTION 4: APPLICATION PROCESSING FOR GUARANTEES ON CONSTRUCTION ADVANCES	5-14
5.23 Overview of Process.....	5-14
SECTION 5: CLAIMS PROCESSING FOR GUARANTEES ON CONSTRUCTION ADVANCES	5-14
5.24 Overview of Process.....	5-14
CHAPTER 6: PROGRAM FEES	6-1
6.1 Overview.....	6-1
6.2 Fees Associated with the Loan Guarantee.....	6-2
A. Guarantee Fee.....	6-2
B. Annual Fee.....	6-2
C. Surcharge for Guarantees on Construction Advances.....	6-2
6.3 Additional Agency Fees.....	6-2
A. Application Fee.....	6-2
B. Extension and Reopening Fees.....	6-2
C. Transfer Fee.....	6-3
CHAPTER 7: SERVICING PERMANENT LOANS	7-1
7.1 Introduction.....	7-1
SECTION 1: SERVICING GOALS AND OBJECTIVES	7-1
7.2 Objectives.....	7-1

7.3	Protecting the Value of the Financial Asset.....	7-1
7.4	Protecting the Tenants’ Rights.....	7-2
7.5	Protecting the Government’s Interests.....	7-2
SECTION 2: GENERAL SERVICING REQUIREMENTS.....		7-2
7.6	Funds Management.....	7-2
	A. Collecting and Processing Borrower Payments.....	7-2
	B. Escrow and Reserve Account Management	7-2
	C. Interest Credit	7-3
	D. Approval of Reserve Releases	7-3
	E. Approval of Surplus Cash Distribution to the Borrower.....	7-5
7.7	Addressing Defaults and Delinquencies	7-7
	A. Delinquencies.....	7-7
	B. Declaring a Default.....	7-7
	C. Initiating Special Servicing.....	7-7
7.8	Transfer of Ownership	7-8
	A. Changes in the Ownership Entity	7-8
	B. Transfers of Title/Transfers of Physical Assets.....	7-8
7.9	Transfer of Loans or Mortgage Servicing.....	7-8
SECTION 3: ASSET MANAGEMENT		7-9
7.10	Overview.....	7-9
7.11	Financial Management.....	7-9
	A. Borrower Reports to the Lender	7-9
	B. Lender Reports to the Agency	7-11
7.12	Completing the Capital Needs Assessment and Reserve Analysis.....	7-14
	A. The Capital Needs Assessment.....	7-14
	B. Adjusting the Reserve Deposit Requirement.....	7-14
7.13	Physical Maintenance and Oversight.....	7-15
	A. Physical Standards and Inspections	7-15
	B. Capital Improvement Plans.....	7-16
7.14	Compliance with other Federal Requirements.....	7-16
	A. Affirmative Fair Housing Marketing Plan.....	7-16
	B. Annual Fair Housing Reporting Requirements	7-16

C. Other Civil Rights Laws	7-16
7.15 Compliance with other Program Requirements	7-19
A. Regulatory Agreement Compliance.....	7-19
B. Preservation of Affordable Housing	7-20
SECTION 4: SPECIAL SERVICING	7-20
7.16 Overview.....	7-20
7.17 Roles and Responsibilities of the Servicing Lender	7-21
A. Development of a Workout Plan.....	7-21
B. Bankruptcy of Borrower	7-22
C. Loss Claims During Bankruptcy.....	7-22
7.18 Roles and Responsibilities of the Borrower	7-22
A. Submission of Information to the Lender.....	7-22
B. Development and Execution of the Workout Plan.....	7-23
C. Compliance with the Workout Plan	7-23
7.19 Special Servicing Options.....	7-23
A. Loan Modifications	7-23
B. Partial Payment of Claim	7-23
C. Transfer of Physical Assets	7-24
D. Agency Approval of Reserve Releases	7-24
E. Lender Recommendation of Enforcement Action.....	7-24
Attachment 7-A: GRRHP Lender Servicing Compliance Checklist	
CHAPTER 8: PROPERTY MANAGEMENT.....	8-1
8.1 Introduction.....	8-1
SECTION 1: ROLE OF LENDER IN PROPERTY MANAGEMENT	8-1
8.2 Responsibilities of the Lender	8-1
A. Management Plan.....	8-1
B. Property Manager Qualifications.....	8-2
C. Management Agreement.....	8-2
D. Site Visits	8-2
E. Occupancy and Rent	8-2
F. Affirmative Fair Housing Marketing Plan.....	8-2
G. Reporting	8-2
H. Relationship Reporting	8-3
I. Pre-Rent Up Instructions.....	8-3
SECTION 2: MANAGEMENT PLAN	8-4
8.3 Overview.....	8-4

8.4 Management Plan Requirements	8-4
A. Management Plan Contents	8-4
B. Agency Review	8-6
SECTION 3: PROPERTY MANAGER	8-6
8.5 Overview	8-6
8.6 Key Property Manager Issues	8-7
8.7 Property Manager Experience	8-7
8.8 Previous Participation and other Federal Requirements	8-8
SECTION 4: MANAGEMENT AGREEMENT	8-8
8.9 Overview	8-8
8.10 Terms and Conditions	8-8
8.11 Management Fee	8-9
SECTION 5: OCCUPANCY REQUIREMENTS	8-9
8.12 Occupancy Requirements and Lender Review	8-9
A. Income of Residents	8-9
B. Tenant Income Certifications	8-9
C. GRRHP Definition of Income	8-10
D. Reporting of Income	8-10
E. Restrictions on Rent	8-10
F. Use Restrictions	8-11
SECTION 6: TENANT PROTECTION AND GRIEVANCE PROCEDURES	8-11
8.13 Overview	8-11
8.14 Tenant Protection	8-12
8.15 Grievance Procedures	8-12
8.16 Civil Rights	8-14
A. Lender Obligations	8-14
B. Penalties	8-15
8.17 Housing Discrimination	8-15
Attachment 8-A: Management Plan Requirements for the Guaranteed Rural Rental Housing Program	
Attachment 8-B: The Hearing Process for Tenant Grievances and Appeals for the Guaranteed Rural Rental Housing Program	

CHAPTER 9: INSURANCE REQUIREMENTS	9-1
9.1 Introduction	9-1
SECTION 1: OVERVIEW OF INSURANCE REQUIREMENTS	9-1
9.2 Overview.....	9-1
SECTION 2: TYPES OF INSURANCE.....	9-1
9.3 Property Insurance	9-1
9.4 Fidelity Insurance	9-2
9.5 Mortgage’s Errors and Omissions (E&O) Insurance.....	9-2
9.6 Liability Insurance	9-2
9.7 Worker’s Compensation	9-3
9.8 Evidence of Insurance, Terms, and Coverage.....	9-3
SECTION 3: AUTHORIZED INSURANCE PROVIDERS.....	9-3
9.9 Overview.....	9-3
9.10 Acceptable Ratings for Insurance Providers.....	9-3
CHAPTER 10: CLAIMS.....	10-1
10.1 Purpose and Overview	10-1
SECTION 1: PRE-LIQUIDATION REQUIREMENTS	10-2
10.2 Overview.....	10-2
SECTION 2: DECISION TO LIQUIDATE.....	10-2
10.3 Overview.....	10-2
10.4 Notice of Liquidation and Potential Claim.....	10-3
10.5 Submission of a Liquidation Plan.....	10-3
10.6 Approval of Liquidation Plan	10-5
10.7 Filing an Estimated Loss Claim.....	10-5
10.8 Withdrawal of a Claim.....	10-5
SECTION 3: PROPERTY LIQUIDATION	10-5
10.9 Property Acquisition.....	10-5
10.10 Lender Liquidation	10-6
10.11 Failure to Comply with the Liquidation Plan	10-7
SECTION 4: AGENCY ELECTION OF ASSIGNMENT OR CONVEYANCE.....	10-7
10.12 Overview.....	10-7
10.13 Assignment of the Loan.....	10-8
10.14 Conveyance of Title to the Agency	10-8

SECTION 5: DETERMINATION OF THE CLAIM AMOUNT	10-9
10.15 Introduction.....	10-9
10.16 Determination of the Date of Loss.....	10-10
A. Lender Liquidation	10-10
B. Assignment or Conveyance of Title to the Agency	10-10
10.17 Calculation of Loss	10-10
A. Request for Estimated Loss Claim	10-10
B. Final Report of Loss	10-11
10.18 Protective Advances	10-11
10.19 Liquidation Expenses.....	10-11
10.20 Legal Expenses During Bankruptcy Proceedings.....	10-11
10.21 Maximum Guarantee Payment	10-12
SECTION 6: PAYMENT OF THE FINAL CLAIM.....	10-12
10.22 Overview.....	10-12
10.23 Submission of a Report of Final Loss.....	10-12
10.24 The Approved Claim Amount	10-13
CHAPTER 11: ENVIRONMENTAL REQUIREMENTS	11-1
11.1 Purpose and Overview	11-1
11.2 General Environmental Requirements.....	11-1
11.3 Environmental Risk Management.....	11-2
11.4 Responsibility for Environmental Reviews	11-3
11.5 Environmental Reviews During Loan Origination.....	11-4
A. The NOFA Submission Stage	11-4
B. The Application Submission Stage	11-4
11.6 Environmental Reviews During the Servicing Period.....	11-5
11.7 Other Environmental Requirements	11-6
A. Flood Hazard Determination	11-6
B. Clean Air Act and Water Pollution Control Act	11-7
CHAPTER 12: SECONDARY MARKET	12-1
12.1 Purpose and Overview	12-1
SECTION 1: TRANSFER TO SECONDARY MARKETS	12-1
12.2 Holder Versus Participant.....	12-1

12.3 Transfer to the Secondary Market 12-2
 A. Loan Requirements for Sale on the Secondary Market 12-2
 B. Agency Execution of Form RD 3565-5, Assignment Guarantee Agreement.. 12-3
 C. Loans Involving Ginnie Mae, Freddie Mac and Fannie Mae 12-4

SECTION 2: REPURCHASE FROM A SECONDARY MARKET HOLDER..... 12-4

12.4 Holder Demand Repurchase 12-4
12.5 Lender Initiated Repurchase 12-5
12.6 Demand Repurchase of Loans Contained in a Ginnie Mae Pool 12-5
12.7 Purchase of the Loan or Note by the Agency 12-5
 A. Agency Purchase from the Holder 12-5
 B. Agency Purchase of Loans Contained in Ginnie Mae Pools 12-7
12.8 Repurchase Price of the Loan or Note 12-7

GLOSSARY

APPENDIX 1: 7 CFR PART 3565

APPENDIX 2: LIST OF FORMS
