

SUBPART C - ELIGIBILITY AND DISBURSEMENT REQUIREMENTS

§ 201.20 Property improvement loan eligibility.

(a) Borrower eligibility.

(1) To be eligible for a property improvement loan (other than a manufactured home improvement loan), the borrower shall have at

least a one-half interest in one of the following:

(i) Fee simple title to the real property;

(ii) Lease of the real property for a fixed term which expires not less than six calendar months after the final maturity of the loan; or

(iii) A properly recorded land installment contract for the purchase of the real property.

(2) To be eligible for a manufactured home improvement loan, the borrower shall have at least a one-half interest in the residence of the manufactured home, and the home must be the principal residence of the borrower.

(b) Eligible use of loan proceeds.

(1) The loan proceeds shall be used only for the purposes disclosed in the loan application. If the borrower plans to use a dealer or contractor to carry out the improvement work, the lender shall obtain a copy of a proposal or contract that describes in detail the work to be performed and the estimated or actual cost. If the borrower plans to carry out the improvement work without the services of a dealer or contractor, the borrower shall be required to furnish a detailed written description of the work to be performed, the materials to be furnished, and their estimated cost.

(2) The loan proceeds shall be used only to finance property improvements that substantially protect or improve the basic livability or utility of the property. The Secretary will establish a list of items and activities that may not be financed with the

any
guest
proceeds of any property improvement loan. If a lender has
doubt as to the eligibility of any item or activity, it shall
a specific ruling by the Secretary before making a loan.

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- (3) The loan proceeds shall only be used to finance property improvements that are started after loan approval, unless:
- (i) The prior approval of the Secretary is obtained for an exception to this requirement; or
 - (ii) The property is located in a major disaster area declared by the President, and the lender determines that emergency action is needed to repair damage resulting from the disaster.
- (c) Special pre-application requirements.
- (1) Where the proceeds are to be used for an historic preservation loan, the proposed improvements shall be reviewed and approved by the State Historic Preservation Officer (or other person authorized by the Secretary of the Interior to make such reviews) prior to making application for a loan. The purpose of the review is to determine that (i) the structure is an historic residential structure listed on the National Register of Historic Places or certified by the Secretary of the Interior as conforming with National Register criteria, and (ii) the proposed improvements comply with criteria set by the Secretary of the Interior for the preservation of historic structures.
- (2) Where the proceeds are to be used for a fire safety equipment loan, the proposed improvements shall be reviewed and approved by the State or local agency having primary jurisdiction over the fire safety requirements of health care facilities prior to making application for a loan.

§ 201.21 Manufactured home loan eligibility.

- (a) Borrower eligibility. To be eligible for a manufactured home loan (whether a manufactured home purchase loan, a manufactured home lot

loan, or a combination loan), the borrower must become the owner of the particular property which is to be financed with such a loan. Where the loan involves a manufactured home which is classified as realty, ownership of the home must be in fee simple. Where the loan involves a manufactured home lot, ownership of the lot must be in fee simple, except where the lot consists of a share in a cooperative association which owns and operates a manufactured home park.

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(b) Eligible use of loan proceeds.

(1) The loan proceeds may be used for the purchase or refinancing of a manufactured home, a suitably developed lot on which to place a manufactured home already owned by the borrower, or a manufactured home and a suitably developed lot for the home in combination. The loan proceeds may also be used to refinance an existing manufactured home already owned by the borrower in connection with the purchase of a manufactured home lot, or to refinance a lot already owned by the borrower in connection with the purchase of a manufactured home. Where the proceeds are for a manufactured home purchase loan or combination loan, the home must be the borrower's principal residence. Where the proceeds are for a manufactured home lot loan, the borrower's manufactured home must be placed on the lot and occupied as the borrower's principal residence within six months after the date of the loan.

(2) A manufactured home financed with an insured loan under this part may be either:

(i) A new home, which is one that is purchased by the borrower within 18 months after the date of manufacture and has not been previously occupied; or

(ii) An existing home, which is one that does not meet the criteria

for a new home.

In order to be eligible for financing with an insured loan under this part, the manufactured home, its warranty and the site on which the home is placed must meet the requirements of paragraphs (c) through (e) of this section.

(3) The proceeds of a loan to purchase a new manufactured home or a new manufactured home and lot shall not be used to purchase furniture or wheels and axles, and the cost of these items shall not be included in the total principal obligation calculated under § 201.10(b)(1) or (d)(1).

(4) The proceeds of a manufactured home purchase loan may be used for the purchase, construction or installation of a garage, carport, patio or other comparable appurtenance to the manufactured home, as stated in the retail purchase contract and as approved by the Secretary. The proceeds of a combination loan may be used for the purchase, construction or installation of a permanent foundation, garage, carport, patio or other comparable appurtenance to the manufactured home.

(5) The Secretary will establish a list of items and activities that may not be financed with the proceeds of any manufactured home loan. If a lender has any doubt as to the eligibility of any item or activity, it shall request a specific ruling by the Secretary before making a loan.

(c) Construction, transportation and installation requirements.

(1) The manufactured home shall be certified by the manufacturer under applicable criminal and civil penalties for fraud and misrepresentation to have been constructed in compliance with the National Manufactured Housing Construction and Safety Standards Act of 1974, 42 U.S.C. 5401-5426, so as to conform to all applicable

label
CFR
Federal construction and safety standards, as evidenced by a
or tag affixed to the manufactured home in accordance with 24
3280.8.

(2) During any period of transportation from the factory to the
borrower's homesite, the structural integrity of the
manufactured
home shall be maintained so that it will be livable and
durable.

(3) The installation or erection of the manufactured home on the
homesite shall comply with the manufacturer's requirements
for
anchoring, support, stability and maintenance. Any permanent
foundation shall be constructed in accordance with the
current
edition of HUD's Permanent Foundations Guide for Manufactured
Housing (HUD Handbook 4930.3).

(4) For any manufactured home purchase loan or combination loan
involving a sale of the manufactured home by a dealer, the
dealer
shall inspect the manufactured home, as installed or erected
on the
homesite, for structural damage or other defects resulting
from the
transportation and installation of the home. The dealer shall
also
test the performance of the home's plumbing, mechanical and
electrical systems to assure that they are fully operational.

(d) Manufacturer's warranty requirements.

(1) To induce the Secretary to insure a Title I loan under this
part
for the purchase of a new manufactured home and to induce a
borrower to purchase such a home, the home manufacturer shall
furnish the borrower with a written warranty, duly executed
by an
author representative of the manufacturer on a HUD-approved
form.
The warranty shall be provided without cost to the borrower.
The
effective date of the warranty shall be the date of delivery
of

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the manufactured home to the borrower, regardless of when the
warranty was executed by the manufacturer or was delivered to
the
borrower.

(2) The warranty shall obligate the home manufacturer to take appropriate action to correct any nonconformity with the standards prescribed in paragraph (c)(1) of this section or any defects in materials or workmanship which become evident within one year after the date of delivery. This warranty shall be in addition to, and not in derogation of, all other rights and privileges which the borrower may have under any other law or instrument during such period or thereafter. A copy of the warranty shall be retained in the lender's loan file.

(3) Prior to making a loan involving a new manufactured home, the lender shall investigate whether the home manufacturer is substantially complying with its warranty obligations on other homes financed by the lender under any program. If the lender knows, because of consumer complaints, dealer comments or other information concerning the manufacturer received in the course of business, that consumers have complained about warranty performance, the lender shall ascertain whether such complaints have been resolved. The lender's findings shall be documented in the loan file. Such documentation may reference information or materials contained in other files of the lender, provided that the file contains a written certification signed by a responsible loan officer under applicable criminal and civil penalties for fraud and misrepresentation that the lender's findings are supported by such other information or materials.

(4) If the lender concludes under paragraph (d)(3) of this section that a manufacturer may not be honoring its warranties, the lender shall immediately notify the Secretary in writing, with documentation of the facts and circumstances.

(e) Manufactured homesite standards.

(1) To assure the suitability of the homesite, the manufactured home shall be placed on a leased site in a manufactured home park or on

leased
by the borrower that meets the following standards. A
manufactured
home may be placed on a site within Indian trust or otherwise
restricted lands if the borrower owns or leases the site, or
if the
borrower obtains written permission acceptable to the
Secretary
from the trustee or the tribal authority who controls the use
of
the site.

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(2) The manufactured homesite shall be served by adequate public
or
community water and sewerage systems, unless appropriate
local
officials certify that either or both such systems are
unavailable
to provide an adequate level of service to the manufactured
homesite. If either or both such systems are not available,
the
manufactured homesite shall comply with local or State
minimum lot
area requirements for the provision of on-site water supply
and/or
sewage disposal.

(3) When the manufactured home is to be placed on a leased site
in a
manufactured home park, the lender shall obtain
certifications from
the appropriate State or local government officials that the
park
complies with minimum standards relating to vehicular access,
water
supply, sewage disposal, utility connections, and other
aspects of
park development. Where minimum State and local standards for
park
development are not established or enforced, the lender shall
obtain a certification from a registered civil engineer that
the
park meets minimum standards for park development prescribed
by the
Secretary.

(4) When the manufactured home is to be placed on an individual
borrower
manufactured home lot or other site owned or leased by the
section),
(or on an Indian land site under paragraph (e)(1) of this
local
the lender shall obtain certifications from the appropriate

government officials that:

- (i) The site complies with local zoning ordinances and regulations, if any;
- (ii) Adequate vehicular access from a public right-of-way is available to the site;
- (iii) Adequate water supply and sewage disposal facilities are available to or on the site; and
- (iv) Any other minimum local standards and requirements for site suitability are met.

Where minimum local standards for water supply and sewage disposal are not established or enforced, the lender shall obtain a certification from a registered civil engineer that the site meets minimum standards for water supply and sewage disposal prescribed by the Secretary.

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§ 201.22 Credit requirements for borrowers.

(a) Credit application and review.

(1) Before making a loan insured under this part, the lender shall exercise prudence and diligence to determine whether the borrower and any co-maker or co-signer is solvent and an acceptable credit risk, with a reasonable ability to make payments on the loan obligation. All documentation supporting this determination relating to the lender's review of the credit of the borrower and of any co-maker or co-signer shall be retained in the loan file.

(2) The lender shall obtain a separate dated credit application on a HUD-approved form, executed by the borrower and any co-maker or co-signer under applicable criminal and civil penalties for fraud and misrepresentation, for each loan made. The lender shall verify that the borrower's Social Security Number is valid, through such documentation as may be prescribed by the Secretary.

(3) The lender shall conduct a credit investigation based on the credit application, and shall obtain written verification of or otherwise document the current employment and current income of the borrower and any co-maker or co-signer. If the borrower or any co-maker or co-signer has changed employment within the past two years, the lender shall obtain written verification of or otherwise document the person's prior employment and prior income during the two-year period. If the borrower or any co-maker or co-signer was self-employed during any period of the previous two years, the lender shall obtain documentation of the person's income during such period of self-employment.

(4) The lender shall also determine the total amount of the borrower's existing and proposed Title I loans to ensure that the loan amounts in § 201.10 are not exceeded.

(5) As part of its credit investigation, the lender shall obtain a consumer credit report stating the credit accounts and payment history of the borrower and of any co-maker or co-signer. Subject to State or local law, the lender shall check with the inquirers concerning all credit inquiries reported within the previous 90 days to determine whether the borrower or the co-maker or co-signer has incurred debts not listed on the credit application. If a consumer credit report is not available or is incomplete, the loan file shall contain other documentation of the lender's diligent investigation of the credit of the borrower or of the co-maker or co-signer.

(6) If the consumer credit report does not contain the necessary information, the lender shall obtain written verification that the borrower is not over 30 days delinquent on any senior mortgages or deeds of trust on the property being improved with a property

improvement loan.

(7) The lender shall verify, in such manner as the Secretary may prescribe, whether the borrower is in default or a claim has been paid in connection with any loan obligation owed to or insured or guaranteed by the Federal government.

(8) For any loan with a total principal balance in excess of \$5,000, the lender shall obtain written verification of the source of all funds of the borrower required for the borrower's initial payment, if such payment will be in excess of five percent of the loan.

(9) Before making a final determination on the creditworthiness of the borrower, the lender shall conduct a face-to-face or telephone interview with the borrower and any co-maker or co-signer to resolve any discrepancies in the information on the credit application and to assure that the information is accurate and complete.

(10) After a thorough credit investigation and in the absence of information to the contrary, the lender may rely upon all statements of fact made by the borrower or any co-maker or co-signer in the credit application.

(b) Income requirements.

(1) For any Title I loan, the credit application and review must establish that the borrower's income will be adequate to meet the periodic payments required by the loan, as well as the borrower's other housing expenses and recurring charges. For a borrower's income to be considered adequate, housing expenses and total fixed expenses generally may not exceed maximum percentages of effective gross income established by the Secretary. If these expense-to-income ratios are exceeded, the borrower's income may be considered adequate only if the lender determines and documents in the loan file the existence of compensating factors concerning the borrower's creditworthiness which support approval of the loan.

- (2) In determining whether the borrower's income is adequate, the following definitions are applicable:

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- (i) Effective gross income is defined as continuing income from all sources that is reasonably be expected to be available during the first two years of the loan obligation, without any deduction for income taxes or other items.
- (ii) Total fixed expenses is the sum of the borrower's housing expenses and other recurring charges.
- (iii) Housing expenses includes all payments for principal, rent or interest, loan or mortgage insurance charges, ground and leasehold charges, real estate taxes, hazard insurance, homeowners association or condominium fees, but does not include utility costs.
- (iv) Other recurring charges includes all payments on automobile loans, furniture loans, student loans, installment loans, revolving charge accounts, alimony or child support, and any other debt where the obligation is expected to continue for six months or more.
- (c) Evidence of delinquency, default or misrepresentation. Except with the prior approval of the Secretary, the lender shall not approve a loan if the lender has knowledge of any of the following circumstances:
- (1) The borrower is past due more than 30 days as to the payment of principal or interest under the original terms of a loan obligation owed to or insured or guaranteed by the Federal government, unless the debt has since been discharged or satisfied; or
- (2) The borrower has previously made material misstatements of fact on applications for loans or other assistance.

§ 201.23 Borrower's initial payment.

(a) General requirement. The borrower shall be responsible for the payment in cash of any costs that will not be paid, or are not eligible to be paid, from the proceeds of the loan. Such costs payable by the borrower may include any required downpayment, any discount points to be paid by the borrower to the lender, any other fees and charges that may not be financed, and any other costs in excess of the loan amount. No part of such costs payable by the borrower may be loaned, advanced, or paid to or for the benefit of the borrower by the dealer, the manufacturer, or any other party to the loan transaction. If the borrower obtains all or any part of such costs through a gift or a loan from some other source,

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the borrower must disclose the source of such gift or loan on the credit application. Any such loan must be secured by property or collateral owned by the borrower independently of the property securing repayment of the Title I loan, unless the prior approval of the Secretary is obtained for an exception to this requirement. The lender shall consider any such loan obligation in performing the credit investigation. Documentation of any initial payment shall be retained by the lender in the loan file.

(b) Manufactured home purchase loans. In the case of a manufactured home purchase loan, the borrower shall make a minimum cash downpayment of at least five percent of the purchase price of the home. The borrower's equity in an existing manufactured home and any movable appurtenances may be traded-in on a new home and accepted in lieu of full or partial cash downpayment, but without any cash payment to the borrower. The existing manufactured home being traded-in shall be clearly identified, and the borrower's equity in the home shall be based upon the retail value of the home and appurtenances (as determined by a HUD-approved

appraisal), less the total of all loans outstanding on the home and appurtenances.

(c) Manufactured home lot loans. In the case of a manufactured home lot loan, the borrower shall make a minimum cash downpayment of at least five percent of the total of the purchase price and development costs for the lot.

(d) Combination loans. In the case of a combination loan, the borrower shall make a minimum cash downpayment of at least five percent of the purchase price of the manufactured home and lot. If the borrower already owns a manufactured home or a lot on which a manufactured home is to be placed, the borrower's equity in such home or lot may be accepted in lieu of full or partial cash downpayment on a combination loan, but without any cash payment to the borrower.

§ 201.24 Security requirements.

(a) Property improvement loans.

(1) Any property improvement loan in excess of \$7,500 shall be secured by a recorded lien on the improved property. The lien shall be evidenced by a mortgage or deed of trust, executed by the borrower and all other owners in fee simple. If the borrower is a lessee, the borrower and all owners in fee simple must execute the mortgage or deed of trust. If the borrower is purchasing the property under a land installment contract, the borrower, all owners in fee simple, and all intervening contract sellers must execute the

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mortgage or deed of trust. The lien need not be a first lien on the property; however, the lien securing the Title I loan must have priority over any lien securing an uninsured loan made at the same time and in connection with the same property, unless the uninsured

of loan is a first mortgage loan for the purchase or refinancing
the property.

(2) Any property improvement loan for \$7,500 or less (other than
a manufactured home improvement loan) shall be similarly
secured if,
including such loan, the total amount of all Title I loans on
the improved property is more than \$7,500.

(3) Manufactured home improvement loans need not be secured.

(b) Manufactured home loans. Any manufactured home loan shall be
secured by
a recorded lien on the home (or lot or home and lot, as
appropriate),
its furnishings, equipment, accessories, and appurtenances. The
lien
shall be a first lien, superior to any other lien on that
property; and
shall be evidenced by a properly recorded financing statement, a
properly recorded security instrument executed by the borrower and
any
other owner of the property, or another acceptable instrument,
such as
a certificate of title issued by the State and containing a
recitation
of the lender's lien interest in the manufactured home.

(c) Recording and perfection of security. The lender shall assure that
the
legal description of the property as recited in the security
instrument
is accurate, and that the security instrument creates a valid and
enforceable lien on the property in the jurisdiction in which the
property is located. The security instrument shall be recorded and
perfected in the manner specified by applicable State law in the
State
where the property is located.

(d) Substitution or subordination of security. The Secretary may
approve
substitution or subordination of security where the security value
will
not be impaired or reduced.

(e) Release of liability or lien. The lender shall not release the
borrower
or any co-maker or co-signer from any liability under a note or
from any
lien securing a loan insured under this part without the prior
approval
of the Secretary.

' 201.25 Charges to borrower to obtain loan.

(a) Fees and charges that may be financed in a property improvement loan.
The Secretary will establish a list of fees and charges that may be included in a property improvement loan. Such fees and charges shall have been incurred in connection with the origination of the loan,

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and their inclusion shall not increase the total principal obligation beyond the maximum loan amounts in ' 201.10.

(b) Fees and charges that may be financed in a manufactured home loan. The Secretary will establish a list of fees and charges that may be included in a manufactured home loan. Such fees and charges shall have been incurred in connection with the origination of the loan, and their inclusion shall not increase the total principal obligation beyond the maximum loan amounts in ' 201.10.

(c) Fees and charges that may not be financed. The Secretary will establish a list of fees and charges incurred by the lender that may be collected from the borrower in the initial payment, but may not be included in the loan amount or otherwise financed or advanced by the dealer, the manufacturer, or any other party to the loan transaction.

(d) Fees and charges that may not be paid. Neither the lender nor the borrower may pay a referral fee to any dealer, home manufacturer, contractor, supplier, real estate broker, loan broker, or any other party in connection with the origination of a loan insured under this part.

' 201.26 Conditions for loan disbursement.

(a) Property improvement loans. The lender shall comply with the following applicable requirements before disbursing the proceeds of a property improvement loan.

(1) The lender shall ensure that the following conditions are met:

(i) The borrower is eligible for a property improvement loan in accordance with ' 201.20(a)(1) or (2); and

through (ii) The interest of the borrower in the property is valid,
to such title or other evidence as is generally acceptable
the prudent lending institutions and leading attorneys in
community in which the property is situated.

(2) The proposed use of the loan proceeds shall be documented in
accordance with the requirements of ' 201.20(b)(1).

(3) Where the proceeds are to be used for an historic
preservation loan, the lender shall ensure that the proposed improvements
have been approved by the State Historic Preservation Officer in
accordance with ' 201.20(c).

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(4) Where the proceeds are to be used for a fire safety equipment
loan, the lender shall ensure that the proposed improvements have
been approved by the State or local agency having jurisdiction
over the fire safety requirements of health care facilities in
accordance with 201.20(c).

(5) In the case of a dealer loan, the lender shall obtain a
completion certificate, on a HUD-approved form and signed by the
borrower and the dealer under applicable criminal and civil penalties for
fraud and misrepresentation, certifying that:

(i) The improvements are eligible and have been completed in
general accordance with the contract or cost estimate
furnished to the lender; and

not (ii) The borrower has not obtained the benefit of and will
the receive any cash payment, rebate, cash bonus, sales
commission, or anything of more than nominal value from
dealer as an inducement for the consummation of the
transaction.

(6) For any property improvement loan, the lender shall provide
the borrower with a written notice, to be signed by the borrower
and

retained in the loan file, that:

(i) States that the loan will be insured by HUD and describes the actions the Secretary may take to recover the debt if the borrower defaults on the loan and an insurance claim is paid;

(ii) Constitutes the borrower's agreement to pay penalties and administrative costs imposed by HUD as authorized by 31 U.S.C. 3717; and

(iii) In the case of a direct loan, constitutes an acknowledgement of the borrower's post-disbursement obligation to furnish a completion certificate and to permit an on-site inspection by the lender or its agent in accordance with ' ' 201.40(o) and (c).

(b) Manufactured home loans. The lender shall comply with the following applicable requirements before disbursing the proceeds of a manufactured home loan.

(1) The lender shall ensure that the borrower is eligible for a manufactured home loan in accordance with ' 201.21(a).

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(2) The lender shall assure that the loan file is complete, and shall obtain the following documents for retention in the loan file:

(i) A signed copy of the purchase contract between the borrower and the dealer or seller;

(ii) A copy of the manufacturer's invoice, where the loan involves the purchase of a new manufactured home;

(iii) Copies of itemized statements of other costs, fees and charges, whether paid by the borrower or financed with the loan proceeds; and

(iv) The note and security instrument and copies of all other

documents relating to the loan transaction.

- (3) The lender shall obtain certifications from the borrower under applicable criminal and civil penalties for fraud and misrepresentation that:
- (i) The manufactured home being financed with a manufactured home purchase loan or combination loan will be occupied as the borrower's principal residence;
 - (ii) Where the proceeds are for a manufactured home lot loan, the borrower's manufactured home will be placed on the lot and will be occupied as the borrower's principal residence within six months after the date of the loan;
 - (iii) The initial payment required under ' 201.23 was made, and no part of the initial payment was borrowed from or otherwise advanced or paid to or for the benefit of the borrower by the dealer or seller, the manufacturer, or any other party to the transaction, and if any part of the initial payment was or obtained through a gift or loan, the source of the gift loan and the security for any such loan was disclosed on the credit application;
 - (iv) While any portion of the loan obligation on a manufactured home purchase loan is unpaid, the manufactured home may be moved only to a new site in compliance with ' 201.21(c) and (e), and only with the lender's prior approval;
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- (v) While any portion of the loan obligation on a combination loan is unpaid, the manufactured home will not be moved to a new site;
 - (vi) The borrower has paid the remaining unpaid balance on any

property,
for an
other manufactured home loan secured by a different
unless the prior approval of the Secretary is obtained
exception to this requirement; and

not
anything of
as an
(vii) The borrower has not obtained the benefit of and will
receive any cash payment, rebate, cash bonus, or
more than nominal value from the manufacturer or dealer
inducement for the consummation of the transaction.

(4) For any manufactured home purchase loan or combination loan
lender
and
penalties
involving the sale of a manufactured home by a dealer, the
shall obtain a placement certificate, on a HUD-approved form
signed by the dealer under applicable criminal and civil
for fraud and misrepresentation, certifying that:

(i) The manufactured homesite meets the requirements of ' 201.21(e);
(ii) The structural integrity of the manufactured home was maintained during the process of transporting the home
to the
borrower's homesite;
(iii) The manufactured home has been installed or erected on
the
requirements
homesite in accordance with the manufacturer's
for anchoring, support, stability and maintenance;
(iv) If the manufactured home is placed on a permanent
foundation,
the
such foundation has been constructed in accordance with
requirements of '201.21(c)(3);
(v) The dealer has performed the inspection and tests
required
manufactured
under ' 201.21(c)(4) and has determined that the
home has sustained no structural damage or other defects
resulting from its transportation or installation, and
all
plumbing, mechanical and electrical systems are fully
operational;

(vi) Any initial payment required under ' 201.23 was made by
the
borrower, and no part of the initial payment was loaned,
advanced, or paid to or for the benefit of the borrower
by

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the manufacturer, dealer, or any other party to the loan transaction; and

(vii) The borrower has not obtained the benefit of and will not receive any cash payment, rebate, cash bonus, or anything of more than nominal value from the manufacturer or dealer as an inducement for the consummation of the transaction.

(5) The lender shall obtain and file the certifications by local officials or a civil engineer which are required under 201.21(e) to document the suitability of the manufactured homesite.

(6) For any direct manufactured home purchase loan or combination loan involving the relocation of the manufactured home to a new homesite owned or leased by the borrower, the lender (or an agent of the lender that is not a manufactured home dealer) shall conduct a site-of-placement inspection to verify that:

(i) The terms and conditions of the purchase contract have been met;

(ii) The manufactured home and any itemized options and appurtenances included in the purchase price of the home or to be financed with the loan proceeds have been delivered and installed; and

(iii) The manufactured home has been properly erected or installed on the homesite without any apparent structural damage or other serious defects resulting from its transportation or installation, and all plumbing, mechanical and electrical systems are fully operational.

(7) The lender shall provide the borrower with a written notice, to be signed by the borrower and retained in the loan file, that:

(i) States that the loan will be insured by the HUD and describes

if the
paid;
and

the actions the Secretary may take to recover the debt
borrower defaults on the loan and an insurance claim is
and

and
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(ii) Constitutes the borrower's agreement to pay penalties
administrative costs imposed by HUD as authorized by 31
3717.

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(8) Where a manufactured home purchase loan involves a
manufactured
restricted
trustee
to
and

home which is to be located on Indian trust or otherwise
lands, the lender shall obtain written permission from the
or the tribal authority who controls the site for the lender
repossess the home in the event of default by the borrower
acceleration of the loan.

' 201.27 Requirements for dealer loans.

(a) Dealer approval and supervision.

(1) The lender shall approve only those dealers which, on the
basis of
reliable,
perform
the
lender

experience and information, the lender considers to be
financially responsible, and qualified to satisfactorily
their contractual obligations to borrowers and to comply with
requirements of this part. However, in no case shall the
approve a dealer that is unable to meet the following minimum
qualifications:

net
the
experience as

(i) A property improvement dealer shall have and maintain a
worth of not less than \$25,000 in assets acceptable to
Secretary, and shall have demonstrated business
a property improvement contractor or supplier; and

worth

(ii) A manufactured home dealer shall have and maintain a net
of not less than \$50,000 in assets acceptable to the

Secretary, and shall have demonstrated business experience in manufactured home retail sales.

(2) The lender's approval of a dealer shall be documented on a MUD-approved form, signed and dated by the dealer and the lender under applicable criminal and civil penalties for fraud and misrepresentation, and containing information supplied by the dealer on its trade name, places of business, type of ownership, type of business, and names and employment history of the owners, principals, officers, and salespersons. The dealer shall furnish a current financial statement prepared by someone who is independent of the dealer and is qualified by education and experience to prepare such statements, together with such other documentation as the lender deems necessary to support its approval of the dealer. The lender shall obtain a commercial credit report on the dealer and consumer credit reports on the owners, principals, and officers of the dealership.

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(3) The lender shall require each dealer to apply annually for reapproval. The dealer shall furnish the same documentation as is required under paragraph (a)(2) of this section to support its application for reapproval. In no case shall the lender reapprove a dealer that is unable to meet the minimum net worth requirements in paragraph (a)(1).

(4) The lender shall supervise and monitor each approved dealer's activities with respect to loans insured under this part. The lender shall visit each approved dealer's places of business at least once in every six months to review its Title I performance and compliance. The lender shall maintain a file on each approved dealer which contains the executed dealer approval form and supporting documentation required under paragraph (a)(2) of this section, together with information on the lender's experience with

contain Title I loans involving the dealer. Each dealer file shall
time, information about borrower defaults on Title I loans over
conducted by records of completion or site-of-placement inspections
borrower the lender or its agent, copies of letters concerning
may complaints and their resolution, and records of the lender's
loan periodic review visits to the dealer's premises. The lender
dealer's also require that the dealer furnish records on individual
transactions, if needed to enable the lender to review the
Title I performance and compliance.

(5) If a dealer does not satisfactorily perform its contractual
program obligations to borrowers, does not comply with Title I
and requirements, or is unresponsive to the lender's supervision
dealer's monitoring requirements, the lender shall terminate the
approval and immediately notify the Secretary with written
documentation of the facts. A dealer whose approval is
terminated under these circumstances shall not be reapproved without
prior written approval from the Secretary. The lender may in its
reasons at discretion terminate the approval of a dealer for other
any time.

(6) The lender shall require each approved (or reapproved) dealer
to provide written notification of any material change in its
trade name, places of business, type of ownership, type of
business, or principal individuals who control or manage the business. The
dealer shall furnish such notification to the lender within
30 days after the date of any material change.

(7) As a condition of manufactured home dealer approval (or
dealer to reapproval), the lender may require a manufactured home
the execute a written agreement that, if requested by the lender,
lender dealer will resell any manufactured home repossessed by the

under a Title I insured manufactured home purchase loan approved by the lender as a dealer loan involving that dealer.

(b) Provision for full or partial recourse. In the case of a dealer-originated manufactured home purchase loan or combination loan, the lender and the dealer may agree to a provision in the loan documents for partial or full recourse against the dealer, to reduce or eliminate the lender's loss in the event of foreclosure or repossession. Such recourse provision shall specify that, for a default occurring within a period of not more than three years from the date of the loan, the dealer shall reimburse the lender for a fixed percentage of the unpaid amount of the loan obligation, after deducting the proceeds from the sale of the property and any amounts received or retained by the lender after the date of default. However, the extent of the dealer's liability may not exceed 100 percent of the unpaid amount of the loan obligation prior to such deductions. When a claim is filed, the lender shall notify the Secretary if the loan was subject to a recourse agreement and whether the recourse agreement has been honored. If without the lender's approval a dealer has failed to honor its recourse obligation, the lender shall notify the Secretary and shall assign the recourse obligation to the Secretary in filing an insurance claim.

' 201.28 Flood and hazard insurance, and Coastal Barriers properties.

(a) Flood insurance. No property improvement loan or manufactured home loan shall be eligible for insurance under this part if the property securing repayment of the loan is located in a special flood hazard area identified by the Federal Emergency Management Agency (FEMA), unless flood insurance on the property is obtained by the borrower in compliance with section 102 of the Flood Disaster Protection Act of 1973 (42 U.S.C. 4012a). Such insurance shall be obtained at any time during the term of the loan that the lender determines that the secured property is located in a special flood hazard area identified by FEMA,

and shall be maintained by the borrower for the remaining term of the loan, or until the lender determines that the property is no longer in a special flood hazard area, or until the property is repossessed or foreclosed upon by the lender. The amount of such insurance shall be at least equal to the unpaid balance of the Title I loan, and the lender shall be named as the loss payee for flood insurance benefits.

(b) Hazard insurance. No manufactured home purchase loan or combination loan shall be eligible for insurance under this part unless hazard insurance on the manufactured home is obtained by the borrower and the lender is named as a loss payee of insurance benefits. Such insurance shall be maintained by the borrower for the full term of the loan or

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until the property is repossessed or foreclosed by the lender, and in an amount at least equal to the unpaid balance of the loan, except that the amount of insurance coverage shall be not less than the actual cash value of the home where State law precludes a higher amount. If the borrower fails to maintain such insurance, the lender shall obtain it at the borrower's expense. If the home is not insured against hazards and sustains damage which would normally be covered by such insurance during the borrower's ownership, the appraised value of the home for claim purposes will be adjusted in accordance with ' 201.51(b)(3). Upon acquiring title to the property through repossession or foreclosure, the lender shall maintain hazard insurance upon the property in the amount prescribed above until its disposition and sale.

(c) Coastal barriers properties. No Title I insurance shall be made available under this part for any property improvement loan or manufactured home loan except pursuant to a loan application approved before October 18, 1982, with respect to any property within the Coastal Barriers Resources System established by the Coastal Barriers Resources Act (16 U.S.C. 3501).

' 201.29 Ineligible participants.

No loan may be insured under this part where the lender has been advised in writing by HUD or otherwise knows that any participant in the transaction as a dealer, home manufacturer, contractor, supplier, or broker, or as its agent or representative, has been suspended or debarred, or has otherwise been determined by HUD to be ineligible to participate in the Title I program.