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DEPARTMENT OF AGRICULTURE

Rural Housing Service

7 CFR Part 3555

[Docket No. RHS-26-SFH-0100]

Single Family Housing Guaranteed Loan Program - Income Producing Accessory Dwelling Unit (ADU) Provisions

AGENCY: Rural Housing Service, USDA.

ACTION: Final rule.

SUMMARY: The Rural Housing Service (RHS or the Agency), a Rural Development (RD) agency of the United States Department of Agriculture (USDA), is amending the Single Family Housing Guaranteed Loan Program (SFHGLP) regulation to permit the financing of single family homes with income producing Accessory Dwelling Units (ADUs) and clarify the eligibility of properties with features designed to accommodate home-based operations using non-commercial real estate features.

DATES: This final rule is effective [INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER].

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SUPPLEMENTARY INFORMATION:

Abbreviations

ADU	Accessory Dwelling Unit
CFR	Code of Federal Regulations

FNMA	Fannie Mae
FHA	Federal Housing Administration
FR	Federal Register
FHLMC	Freddie Mac
HUD	Department of Housing and Urban Development
RHS	Rural Housing Service
RD	Rural Development
§	Section
SEQ.	Sequentes
SFHGLP	Single Family Housing Guaranteed Loan Program
UMRA	Unfunded Mandates Reform Act of 1995
U.S.C.	United States Code
USDA	U.S. Department of Agriculture
VA	The Department of Veterans Affairs

Statutory Authority

The SFHGLP is authorized by Section 502(h) of the Housing Act of 1949 (42 U.S.C. 1472(h)), as amended, and implemented by 7 CFR part 3555.

Background

RHS offers programs to develop and enhance housing and critical community infrastructure in rural areas. The Agency provides loans, grants, and loan guarantees for single and multi-family housing, childcare centers, emergency service facilities, hospitals, libraries, nursing homes, schools, and housing for agricultural workers, among other essential projects. RHS partners with non-profits, tribal governments, and state/federal agencies to provide technical assistance and supplementary financing to local communities.

Title V of the Housing Act of 1949 authorizes RHS to provide SFH loan guarantees, providing low and moderate income individuals in rural areas an opportunity to own decent, safe, and sanitary dwellings and related facilities.

To boost homeownership, the federal government has introduced new initiatives providing prospective buyers with greater flexibility to finance properties with ADUs. Growing demand for affordable housing and limited land availability in many rural communities have made financing properties with ADUs increasingly important. Homeowners can create ADUs within or attached to the primary dwelling through attic or basement conversions, building over existing structures like garages, or constructing standalone residential units.

Homeownership options remain limited for many Americans. The Agency recognizes ADUs offer multiple benefits, including expanding a community's housing supply by introducing new and innovative housing typologies of smaller scale, providing more affordable options for low- and moderate-income residents. ADUs also provide borrowers with a means to generate additional income. Together, these benefits support the broader goal of increasing affordable housing stock and promoting long-term homeownership stability.

Discussion of Public Comments

RHS published a proposed rule on March 31, 2026 [91 FR 15914] to amend the Single Family Housing Guaranteed Program (SFHGLP) regulation at 7 CFR part 3555. RHS received comments from 28 respondents, including individuals, interested parties, and associations. One comment received was not applicable to the contents of the rule.

The following summary presents the relevant comments:

Public Comment: Nineteen respondents supported the proposed rule, stating it would accommodate more buyers in rural America.

Agency's Response: RHS appreciates the support and has determined no action is required.

Public Comment: Four respondents expressed support for the proposed rule but recommended expanding eligibility to include small home-based operations with commercial real estate features, as well as clarifying ADU eligibility and income.

Agency's Response: RHS appreciates the comments. While the rule amends 7 CFR 3555.102(c) to permit properties with home-based businesses, 7 CFR 3555.102(b) will continue to prohibit purchasing or improving property principally used for income-producing purposes to ensure financed properties remain primarily residential. Regarding income, 7 CFR 3555.152(a)(3) states lenders may not use income to calculate an applicant's ratios if they cannot verify the source, if the income is not stable, or if it is unlikely to continue. The Agency determined potential income from an ADU falls into this category and will not include it in income calculations.

Public Comment: One respondent agreed the proposal would expand housing opportunities in rural America but raised concerns about consistent enforcement, broader policy implications, and RHS' statutory authority.

Agency's Response: RHS appreciates the comments. The changes fall within the statutory authority granted by the Housing Act of 1949 (42 U.S.C. 1471 et seq.), as amended. RHS recognizes ADUs can increase housing supply, offer additional affordable housing options, and support low- and moderate-income households through the receipt of potential supplemental income. These benefits support RHS' rationale for expanding affordable housing opportunities and promoting long-term homeownership stability.

Public Comment: One respondent expressed support for the proposal and recommended addressing ADU income and room rent income in the final rule.

Agency's Response: RHS appreciates the comments and recognizes rental income from an ADU can support homeowner financial stability. However, 7 CFR 3555.152(a)(3) states lenders may not use income to calculate an applicant's ratios if they cannot verify the source, if

the income is not stable, or if it is unlikely to continue. The Agency determined potential income from an ADU falls into this category and will not include it in income calculations.

Public Comment: Two respondents expressed support and offered additional suggestions regarding homebuyer education, home-based operations, renovation funding at purchase, expanding the ADU definition to include non-income producing ADUs, and establishing more precise property standards.

Agency's Response: RHS appreciates these comments and agrees supporting home-based operations is important. As clarified through this rule, properties accommodating a home-based operation are eligible. In addition, properties with non-income producing ADUs will remain eligible. Comments regarding homebuyer education and renovation funds are outside the scope of this rule.

Summary of Changes to Rule

This final rule adopts, without modification, the changes published in the proposed rule (91 FR 15914; March 31, 2026). The Agency is modifying 7 CFR part 3555 as follows:

(1) Add the definitions of *Accessory Dwelling Unit (ADU)* and *Living Unit* in 7 CFR §3555.10 to clarify the understanding of these terms.

(2) Update 7 CFR §3555.102(b) to permit the issuance of a guarantee when loan funds are used to finance a property which includes a single or multiple income producing ADUs.

(3) Update 7 CFR §3555.102(c) to permit the issuance of a guarantee when loan funds are used to finance a property which accommodates a home-based operation.

(4) Update 7 CFR §3555.201(b)(2) to clarify the eligibility of financing sites which include income producing ADUs.

Executive Orders and Statutory Regulatory Review Requirements

Executive Order 12372, Intergovernmental Review of Federal Programs

This program is not subject to the requirements of Executive Order 12372, "Intergovernmental Review of Federal Programs," as implemented under USDA's regulations.

Executive Order 12866, Regulatory Planning and Review

This final rule has been determined to be not significant under section 3(f) of Executive Order 12866 and was not reviewed by the Office of Management and Budget (OMB).

Executive Order 12988, Civil Justice Reform

This final rule was reviewed under Executive Order 12988. In accordance with this rule: (1) unless otherwise specifically provided, all State and local laws that conflict with this rule will be preempted; (2) no retroactive effect will be given to this rule except as specifically prescribed in the rule; and (3) administrative proceedings of the National Appeals Division of the Department of Agriculture (7 CFR part 11) must be exhausted before bringing suit in court that challenges action taken under this rule.

Executive Order 13132, Federalism

The policies contained in this final rule do not have any substantial direct effect on states, on the relationship between the national government and states, or on the distribution of power and responsibilities among the various levels of government. This rule does not impose substantial direct compliance costs on state and local governments. Therefore, consultation with the states is not required.

Executive Order 13175, Consultation and Coordination with Indian Tribal Governments

This final rule was reviewed in accordance with the requirements of Executive Order 13175, "Consultation and Coordination with Indian Tribal Governments". Executive Order

13175 requires Federal agencies to consult and coordinate with tribes on a government-to-government basis on policies that have tribal implications, including regulations, legislative comments or proposed legislation, and other policy statements or actions that have substantial direct effects on one or more Indian tribes, on the relationship between the Federal Government and Indian tribes or on the distribution of power and responsibilities between the Federal Government and Indian tribes. Consultation is also required for any regulation that preempts tribal law or that imposes substantial direct compliance costs on Indian tribal governments and that is not required by statute. The Agency has determined that this rule does not, to our knowledge, have tribal implications that require formal tribal consultation under Executive Order 13175. If a Tribe requests consultation, the Rural Housing Service will work with the Office of Tribal Relations to ensure meaningful consultation is provided where changes, additions and modifications identified herein are not expressly mandated by Congress.

Unfunded Mandates Reform Act

Title II of the Unfunded Mandates Reform Act of 1995 (UMRA), Public Law 104-4, establishes requirements for federal agencies to assess the effects of their regulatory actions on state, local, and tribal governments and on the private sector. Under section 202 of the UMRA, the Agency generally must prepare a written statement, including a cost-benefit analysis, for proposed and final rules with "federal mandates" that may result in expenditures to state, local, or tribal Governments, in the aggregate, or to the private sector, of $100 million, or more in any one year. When such a statement is needed for a rule, section 205 of the UMRA generally requires the Agency to identify and consider a reasonable number of regulatory alternatives and adopt the least costly, most cost-effective, or least burdensome alternative that achieves the objectives of the rule.

This final rule contains no Federal mandates (under the regulatory provisions of Title II of the UMRA) for state, local, and tribal governments, or for the private sector. Therefore, this

rule is not subject to the requirements of sections 202 and 205 of the UMRA.

National Environmental Policy Act

In accordance with the National Environmental Policy Act of 1969, Public Law 91-190, this rule was reviewed in accordance with 7 CFR part 1b ("National Environmental Policy Act"). The Agency has determined that i) this action meets the criteria established in 7 CFR § 1b.4(c)(31); ii) no extraordinary circumstances exist; and iii) the action is not "connected" to other actions with potentially significant impacts, is not considered a "cumulative action". Therefore, the Agency has determined that the action does not have a significant effect on the human environment, and therefore neither an Environmental Assessment nor an Environmental Impact Statement is required.

Regulatory Flexibility Act

This final rule was reviewed with regard to the requirements of the Regulatory Flexibility Act (5 U.S.C. 601-612). The undersigned has determined and certified by signature on this document that this rule will not have a significant economic impact on a substantial number of small entities since this rulemaking action does not involve a new or expanded program, nor does it require any more action on the part of a small business than required of a large entity.

Civil Rights Impact Analysis

RD has reviewed this final rule in accordance with USDA Regulation 4300-4, Civil Rights Impact Analysis," to identify any major civil rights impacts the rule might have on program participants on the basis of age, race, color, national origin, sex, disability, political beliefs, marital status, familial status, parental status, veteran status, religion, reprisal and/or resulting from all or a part of an individual's income being derived from any public assistance program. This final rule is within a Guarantee-based program. Guarantees are not covered under

Title VI of the Civil Rights Act of 1964, Section 504 of the Rehabilitation Act of 1973, and Title IX of the Education Amendments Act of 1972, as amended, when the Federal assistance does not include insurance or interest credit loans. Lenders must comply with other applicable Federal laws, including Equal Employment Opportunities, the Equal Credit Opportunity Act, the Fair Housing Act, and the Civil Rights Act of 1964. Guaranteed loans that involve the construction of or addition to facilities that accommodate the public must comply with the Architectural Barriers Act Accessibility Standard. The borrower and lender are responsible for ensuring compliance with these requirements.

Assistance Listing number

The program affected by this final rule is listed in the Assistance Listing (AL) Number under number 10.410, Very Low to Moderate Income Housing Loans (Section 502 Rural Housing Loans).

Paperwork Reduction Act

This final rule contains no new reporting or recordkeeping burden under OMB Control Number 0575-0179 that would require approval under the Paperwork Reduction Act of 1995 (44 U.S.C. Chapter 35).

E-Government Act Compliance

Rural Development is committed to the E-Government Act, which requires Government agencies in general to provide the public the option of submitting information or transacting business electronically to the maximum extent possible and to promote the use of the Internet and other information technologies to provide increased opportunities for citizen access to Government information and services, and for other purposes.

Non-Discrimination Policy

In accordance with Federal civil rights laws and U.S. Department of Agriculture (USDA) civil rights regulations and policies, the USDA, its Agencies, offices, and employees, and institutions participating in or administering USDA programs are prohibited from discriminating based on race, color, national origin, religion, sex, disability, age, marital status, family/parental status, income derived from a public assistance program, political beliefs, or reprisal or retaliation for prior civil rights activity, in any program or activity conducted or funded by USDA (not all bases apply to all programs). Remedies and complaint filing deadlines vary by program or incident.

Persons with disabilities who require alternative means of communication for program information (e.g., Braille, large print, audiotape, American Sign Language, etc.) should contact the State or local Agency that administers the program or contact USDA through the Telecommunications Relay Service at 711 (voice and TTY). Additionally, program information may be made available in languages other than English.

To file a program discrimination complaint, complete the USDA Program Discrimination Complaint Form, AD-3027, found online at How to File a Program Discrimination Complaint and at any USDA office or write a letter addressed to USDA and provide in the letter all of the information requested in the form. To request a copy of the complaint form, call (866) 632-9992. Submit your completed form or letter to USDA by: (1) mail: U.S. Department of Agriculture, Office of the Assistant Secretary for Civil Rights, 1400 Independence Avenue, SW, Mail Stop 9410, Washington, D.C. 20250-9410; (2) fax: (202) 690-7442; or (3) email: program.intake@usda.gov.

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List of Subjects in 7 CFR Part 3555

Administrative practice and procedure, Business and industry, Conflicts of interest, Credit, Environmental impact statements, Fair housing, Flood insurance, Grant programs-

housing and community development, Home improvement, Housing, Loan programs-housing and community development, Low and moderate-income housing, Manufactured homes, Mortgage insurance, Mortgages, Reporting and recordkeeping requirements, Rural areas.

For the reasons discussed in the preamble, the Agency is amending 7 CFR part 3555 as follows:

PART 3555—GUARANTEED RURAL HOUSING PROGRAM

1. The authority citation for part 3555 continues to read as follows:

Authority: 5 U.S.C. 301; 42 U.S.C. 1471 *et seq.*

Subpart A – General

2. Amend § 3555.10 by adding in alphabetical order the definitions of *Accessory Dwelling Unit* and *Living Unit* to read as follows:

§ 3555.10 Definitions and abbreviations.

* * * * *

Accessory Dwelling Unit. A habitable living unit located within or detached from a single family dwelling, subordinate in size, has means of separate ingress and egress meeting the minimum requirements for a living unit, which together constitutes a single interest in real estate.

* * * * *

Living Unit. A unit which contains a continuous and sufficient supply of safe and potable water, sanitary facilities and a safe method of sewage disposal, heating adequate for healthful and comfortable living conditions, domestic hot water, electricity adequate for lighting and mechanical equipment, and kitchen facilities adequate for the preparation and cooking of food. The unit must contain at least one bathroom, or similar space, which includes a water closet, lavatory, and bathtub or shower; and kitchen or kitchenette facilities which include a sink with potable running water and a stove utility hookup, or similar cooking instrument.

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Subpart C – Loan Requirements

3**.** Amend § 3555.102 by revising paragraphs (b) and (c) to read as follows:

§ 3555.102 Loan restrictions.

* * * * *

(b) *Income producing land or buildings.* Purchase or improvement of land or buildings which are typically used principally for income-producing purposes. This restriction shall not apply when loan funds are used for the financing of an otherwise qualifying property which contains, or will contain, a single or multiple accessory dwelling units;

(c) *Business or income-producing enterprise.* Purchase or the construction of buildings which are largely or in part specifically designed to accommodate a business or income-producing enterprise. This restriction shall not apply when loan funds are used for the financing of an otherwise qualifying property with design features which accommodate a home-based business or businesses; such as childcare, product sales, or craft production; which do not require specific commercial real estate features;

* * * * *

Subpart E – Underwriting the Property

4**.** Amend § 3555.201 by revising paragraph (b)(2) to read as follows:

§ 3555.201 Site requirements.

* * * * *

(b) * * *

(2) The site must not include income-producing land or buildings to be used principally for income-producing purposes. This limitation shall not apply when an otherwise qualifying property contains, or will contain, a single or multiple accessory dwelling units. Vacant land without eligible residential improvements, or property used primarily for agriculture, farming, or commercial enterprise is ineligible for a loan guarantee.

* * * * *

George Kelly,

Administrator,

Rural Housing Service.
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