UNNUMBERED LETTERS ISSUED FOR THE MAY OF 2014

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May 1, 2014

TO: State Directors, Rural Development

ATTN: Energy Coordinators

SUBJECT: Section 9007 Rural Energy for America Program (REAP)
Evaluation of Energy Audits and Assessments

PURPOSE/INTENDED OUTCOME:

The purpose of this Unnumbered Letter (UL) is to provide clarification and guidance for evaluating energy assessments and audits. The intended outcome is to improve the quality and consistency of energy audits and energy assessments received by the Agency.

IMPLEMENTATION RESPONSIBILITIES:

Rural Development Instruction 4280-B, Section 4280.115 (c) (10) requires eligible project costs for energy efficiency improvements be "limited only to improvements identified in the energy assessment or audit". The improvements identified in the energy assessment or audit must reduce energy consumption, as required in Rural Development Instruction 4280-B, Section 4280.103, which defines an energy efficiency improvement as "improvements to a facility, building, or process that reduces energy consumption, or reduces energy consumed per square foot." Monetary savings realized by fuel that is less expensive, does not qualify as an energy efficiency improvement. The project must demonstrate savings on energy being consumed. For example, a dual fuel capable boiler that has the ability to switch from fuel oil to natural gas would not be eligible simply because natural gas is less expensive. However, the same project would be eligible if the existing boiler is being replaced by a more efficient boiler. Savings associated with the discontinuation of a process or use of equipment is also an ineligible energy savings project.

Staff that receive and review applications for assistance on energy efficiency improvements shall examine energy assessments or audits for compliance with 7 Code of Federal Regulations, Part 4280, subpart B; Appendix A, Section 10 (c)(2); and Appendix B, Section 10 (c) (2). Energy assessments or audits must contain:

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Preceding RD Instruction 4280-B

(i) A situation report that provides a detailed and complete inventory of each system component, operating procedures, sources and quantities of fuels used, and past utility billing. The energy auditor or energy assessor is encouraged to complete a site visit in order to verify the accuracy and specifications of the existing equipment and facilities, and to provide a better assessment of proposed alternatives.

(ii) Technical analysis that discusses the potential improvements compared to existing systems including: existing and proposed systems energy usage and consumption based on observations and standard engineering calculations; estimate direct and indirect costs; and ranking of potential improvements by cost effectiveness. The use of standard engineering calculations presented in a clear and transparent report is also essential to document improvements from the energy baseline.

(iii)Evidence of the last 12 months of energy bills used to calculate the energy baseline. If 12 months of energy bills are not reflective of the average annual energy costs, the energy assessor or energy auditor may use an average. If an average is used, the energy assessment or audit must contain consecutive years and include the most recent years to determine the annual average energy baseline. For example, an application submitted in 2014 which has an energy audit that uses a 5 year average, shall use data for 2013, 2012, 2011, 2010, and 2009. Documentation of the baseline energy use, hours of use, energy units consumed, and energy costs used to evaluate the existing equipment components compared to the proposed components use is essential for determining, simple payback.

If energy assessments and audits do not contain the above information, the Agency reserves the right to request additional information prior to accepting the energy assessment or audit as part of a complete application. If the application window for receiving applications has closed, the Agency cannot request or receive additional information.

A clear and transparent presentation of before and after energy use, project costs, equipment specifications, calculations, and providing a high level of confidence for major capital investment decisions are essential for credible energy assessments and audits. Reports prepared by a Certified Energy Manager (CEM) or Professional Engineer (PE) that meet professional and industry standards such as: 1) American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHREA) Level II Energy Survey, and 2) Analysis and American National Standards Institute (ANSI), American Society of Agricultural and Biological Engineers (ASABE) S162 Standard for performing on farm Energy Audits, are examples where the correct scope and methodology meet or exceed the energy audit requirements specified above.
If you have any questions regarding this Unnumber Letter, please contact Fred Petok at frederick.petok@wdc.udsa.gov or (202) 690-0784.

/s/ LILLIAN E. SALERNO

LILLIAN E. SALERNO
Administrator
Rural Business-Cooperative Service

May 1, 2014

TO: State Directors
Rural Development

ATTN: Community Program Directors

FROM: Tony Hernandez /s/ ***Tony Hernandez***
Administrator
Housing and Community Facilities Programs

SUBJECT: Workout Agreements and Community Programs Reporting Requirements

This memorandum is to clarify servicing requirements on Community Facilities Guaranteed Loans and to establish supplemental reporting requirements for Rural Development State Offices. While the Community Facilities participating lender is ultimately responsible for the servicing on guaranteed loans, National and State Office staffs have been very involved with lenders and borrowers in establishing workout agreements in problem loan situations that have resulted in Community Facilities maintaining a respectable delinquency rate. Workout agreements that modify loan repayment are a good tool to use early in problem loan situations, but it requires close monitoring by lenders and Rural Development staff. Rural Development staff should provide guidance to their lenders on the manner in which these loans should be reported to the Agency.

Rural Development State and Area Office staffs should establish and maintain a solid working relationship with their lenders. In a situation where the borrower is in compliance with a workout agreement and the loan has not been reported previously by the lender as in default, the loan should be reported as current through the lender's "Guaranteed Loan Status Report", Form RD 1980-41. If the borrower has been reported as in default on Form RD 1980-44 "Guaranteed Loan Borrower Default Status", then if in compliance with a workout agreement, the loan may be removed from default status by reporting it as reinstated and current, using code 13. The only situation that would prevent the loan from being reinstated as current would be if an estimated loss loan claim had been paid on the loan.

The National Office is closely monitoring delinquencies on a national basis in light of the pressures our borrowers may be experiencing in the current economic climate. Rural Development State Offices are required to report quarterly, in writing, as directed in

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RD 3575-A § 3575.75 (d) and the Unnumbered Letter dated June 12, 2013, under the subject of "Servicing Requirements for Community Facilities Guaranteed Loans." Using the format provided in the June 12, 2013, Unnumbered Letter, the reports on delinquent and problem loans are to be submitted by the 20th day of January, April, July and October, to Shirley Stevenson, Community Programs Specialist at the National Office. Additionally, the National Office will be in contact by telephone with Rural Development State Offices to follow these loans monthly.

The National Office is available to provide further guidance on this memorandum or any problem loan situation by contacting Shirley Stevenson, Community Programs Specialist at (202) 205-9685.

May 8, 2014

TO: All State Directors
Rural Development

ATTENTION: Single Family Housing Program Directors

FROM: Joyce Allen /s/ ***Joyce Allen***
Deputy Administrator
Single Family Housing

SUBJECT: Coordinating Section 504 Repairs with the Weatherization Assistance Program

We are encouraging States to develop and coordinate Section 504 Repairs with the Department of Energy (DOE) Weatherization Assistance Program.

The Weatherization Assistance Program (WAP) assists income-eligible families and individuals by reducing their heating/cooling costs and improving the safety of their homes through energy efficiency measures. Some of the energy efficiency measures performed through the program include air sealing (weather-stripping, caulking), wall and ceiling insulation, heating system improvements or replacement, efficiency improvements in lighting and insulating pipes and water heaters.

The program operates in all 50 states, and among Native American tribes. The DOE utilizes partnership between state and local agencies to implement the program. The DOE regional offices award grants to state-level agencies which contract with local agencies that provide weatherization services to every county in the Nation. The program's priority services are mainly to the elderly, people with disabilities, and families with children.

Rural Development field staffs are asked to work closely with the WAP managers within your State and local areas to receive a better understanding of how the WAP can interact with our Section 504 loan and grant program. The WAP managers may be obtained by going to

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the DOE website: http://www.eere.energy.gov/wip/wap.html and assessing the Weatherization & Intergovernmental Program. You will be able to view information on the program and locate State contacts, by clicking "**Projects".**

We are looking forward to providing additional assistance to our eligible applicants by bridging the gap between DOE and other federal, state, and community programs. Questions concerning this memorandum should be directed to Gloria Denson of the Single Family Housing Direct Loan Division at (202) 720-1487.

Sent by Electronic Mail on May 8, 2014, at 11:10 a.m. by the Single Family Housing Direct Loan Division. The State Director should advise other personnel as appropriate

May 8, 2014

TO: State Directors
Rural Development

ATTN: Program Directors
Single Family Housing

FROM: Tony Hernandez /s/ ***Tony Hernandez***
Administrator
Housing and Community Facilities

SUBJECT: Encouraging Preauthorized Debit
Single Family Housing Direct Program

PURPOSE:

The purpose of this memorandum is to encourage the use of preauthorized debit and other automated payment methods during loan origination. As stated in Handbook-2-3550, Chapter 2, "Preauthorized debit is the preferred [payment] method, since payments are automatically withdrawn from a borrower's checking or savings account, which increases the likelihood of receiving payments on time. If a borrower has multiple loans secured by a single property, a single billing statement or debit will cover all payments due."

BACKGROUND:

The use of preauthorized debit is commonplace in the mortgage industry and beyond since it benefits the borrowers in a variety of ways, such as:

- Payments are automatically withdrawn on the same date each month, which is known as the draft date. The draft date can be set at as early as 10 days before or up to 15 days after the due date; the draft date cannot be on the 29th, 30th, or 31st.
- The avoidance of check writing.
- The avoidance of postage costs and possible mail delays.

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- The avoidance of the time and fees associated with obtaining money orders or using services such as Western Union and MoneyGram.
- There are no fees to use the payment method and the use of the method can be terminated at any point.

IMPLEMENTATION RESPONSIBILITIES:

Effective with the date of this memorandum, field staff members are instructed to:

- **Strongly encourage** applicants to sign up for preauthorized debit during the applicant orientation meeting. During this discussion, field staff should also inform applicants of the other automated and free payment methods available to them. The other options are: payment by phone, which is known as the interactive voice response unit, at 1-800-414-1226 option 1 and online using the mortgage account information page, which requires an eAuthorization identification and password, at http://rdhomeloans.usda.gov/. Applicants should be informed that these other free options are not automatic and require monthly action by them.
- Attach the Department of the Treasury's Standard Form 5510, Authorization Agreement for Preauthorized Payments, to Form RD 3550-7, Funding Commitment and Notification of Loan Closing. The Department of the Treasury is in the process of preparing a revision to Standard Form 5510. In the interim, the form with a revision date of 2/2005 and an expiration date of 01/31/2014 may still be used. A copy of the current form will be placed in SharePoint (and replaced with the revision once available). The form will be located using the following path: Rural Development Share Point Sites > TeamRD > Housing & Community Facilities Programs > Single Family Housing > Direct Program Information > SF 5510
- Add the following note under "Other" on Page 2 of Form RD 3550-7: "Attached is an Authorization Agreement for Preauthorized Payments. This payment method is strongly encouraged as a convenient and automatic way to make your monthly mortgage payment, but is not required."

Questions concerning this memorandum may be directed to Brooke Baumann of the Single Family Housing Direct Loan Division at (202) 690-4250 or at brooke.baumann@wdc.usda.gov.

Sent by Electronic Mail on May 12, 2014, at 8:10 a.m. by the Single Family Housing Direct Loan Division. The State Director should advise other personnel as appropriate.

May 12, 2014

TO: State Directors
Rural Development

ATTN: Program Directors
Single Family Housing

FROM: Tony Hernandez /s/ ***Tony Hernandez***
Administrator
Housing and Community Facilities

SUBJECT: Determining Student Loan Payments for the Total Debt Ratio
Single Family Housing Direct Loan Program

PURPOSE:

The purpose of this memorandum is to provide guidance on how to determine the amount of the student loan payments when calculating the total debt ratio. This guidance acknowledges the availability of improved student loan repayment options upon leaving college and the possible fluctuations with the student loan payments every year while balancing the need to manage risk when making a single family housing direct loan.

BACKGROUND:

A number of changes have occurred over the last several years with regard to student loans made in both the private and public arena. Student loan borrowers now have more varied repayment plan options. For example, Federal student loan borrowers may, if eligible, take advantage of repayment plans that use their adjusted gross income and family size to determine their monthly payment.

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Under certain student loan repayment plan options, a student loan borrower could have a $0 monthly payment and be considered in repayment status. The $0 monthly payment is considered a payment and each $0 monthly payment counts towards the repayment terms.

Qualifying and remaining qualified for some repayment plan options is quite complex and requires an annual review by the loan holder.

IMPLEMENTATION RESPONSIBILITIES:

Due to the uncertainty in some of the student loan repayment plan options, the higher of the monthly student loan payment listed on the credit report or one percent (1%) of the student loan balance must be used in the calculation of the total debt ratio. This applies to all student loans regardless of status (deferred, in repayment, etc.).

The Loan Approval Official may grant an exception and use the actual monthly payment under the existing repayment plan if:

- Lender documentation is obtained confirming that the loan status is "repayment" and the repayment plan is something other than the standard 10-year repayment plan;
- Using the higher of the monthly student loan payment listed on the credit report or one percent (1%) of the student loan balance results in a qualification amount that is insufficient to obtain modest, decent, safe and sanitary housing;
- No additional risk layering (e.g. adverse credit waivers, use of compensating factors, etc.) is allowed without strong justification; and
- The Loan Approval Official thoroughly documents their rationale for allowing the exception in the running case record.

If you have any questions regarding this memorandum, please contact Brooke Baumann of the Single Family Housing Direct Loan Division at (202) 690-4250.

Sent by Electronic Mail on May 12, 2014 at 9:00 a.m., by the Single Family Housing Direct Loan Division. The State Director should advise other personnel as appropriate.

May 22, 2014

TO:	State Directors
ATTN:	Area Directors Area Specialist Rural Housing Program Directors
FROM:	Tony Hernandez ***(signed Tony Hernandez)*** Administrator Housing and Community Facilities Programs
SUBJECT:	Interest Rate Changes for Housing Programs and Credit Sales (Nonprogram)

The following interest rates, effective June 1, 2014, are reported as follows:

Loan Type	**Existing Rate**	**New Rate**
ALL LOAN TYPES		
Treasury Judgment Rate	0.140%	0.110%

The new rate shown above is as of the week ending May 25, 2014. The actual judgment rate that will be used will be the rate for the calendar week preceding the date the defendant becomes liable for interest. This rate may be found by going to the Federal Reserve website for the weekly average 1-year Constant Maturity Treasury Yield *

RURAL HOUSING LOANS

Rural Housing (RH) 502 Very-Low or Low	3.750	3.750
Single Family Housing (SFH) Nonprogram	4.250	4.250
Rural Housing Site (RH-524), Non-Self-Help	3.750	3.750
Rural Rental Housing and Rural Cooperative Housing	3.750	3.750

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June 30, 2014

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* (http://www.federalreserve.gov/releases/h15/data/Weekly_Friday_/H15_TCMNOM_Y1.txt).

Please notify appropriate personnel of these rates.