

UNNUMBERED LETTERS ISSUED FOR THE OCTOBER OF 2014

Dated	Subject	Distribution
10-14-14	Interest Rate Changes for Housing Programs and Credit Sales (Nonprogram)	S/D
10-15-14	Encouraging the use of a Home Warranty Section 502 Direct Loan Program	S/D
10-20-14	Section 515 Loan Two Percent Initial Operating Capital (§3560 Subpart B – Direct Loan and Grant Origination)	S/D

October 14, 2014

TO: State Directors

ATTN: Area Directors
Area Specialist
Rural Housing Program Directors

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

SUBJECT: Interest Rate Changes for Housing Programs
and Credit Sales (Nonprogram)

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

<u>Loan Type</u>	<u>Existing Rate</u>	<u>New Rate</u>
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ALL LOAN TYPES

Treasury Judgment Rate	0.110%	0.100%
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The new rate shown above is as of the week ending September 26, 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	3.625	3.625
Single Family Housing (SFH) Nonprogram	4.125	4.125
Rural Housing Site (RH-524), Non-Self-Help	3.625	3.625
Rural Rental Housing and Rural Cooperative Housing	3.625	3.625

EXPIRATION DATE:
November 30, 2014

FILING INSTRUCTIONS:
Administrative/Other Programs

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

Interest Rate Changes for Housing Programs
and Credit Sales (Nonprogram)

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Please notify appropriate personnel of these rates.

Sent by Electronic Mail on 9-19-14 at 9:00 am by Credit Reform Staff. State Directors should advise other personnel as appropriate.

October 15, 2014

TO: State Directors
Rural Development

ATTN: Program Directors
Single Family Housing

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

SUBJECT: Encouraging the use of a Home Warranty
Section 502 Direct Loan Program

PURPOSE:

The purpose of this memorandum is to encourage, but not require, the use of a home warranty. The 'Shopping for Your Home Loan' booklet (as required in Handbook-1-3550, Paragraph 3.7) informs applicants that this additional service provides protection for the home's mechanical systems and appliances. While first-time homebuyers are informed about the benefits of a home warranty during the required homeowner education course, added emphasis by the agency is needed.

BACKGROUND:

During the applicant orientation, soon-to-be borrowers are informed they are responsible for maintaining their properties throughout the life of the loan. Failure to protect the agency's security is a non-monetary default and could result in foreclosure (refer to Form RD 3550-23, 'Applicant Orientation Guide').

EXPIRATION DATE:
October 31, 2015

FILING INSTRUCTIONS
Housing Programs

Assuming the responsibility and cost of property maintenance is one of the most significant adjustments new homeowners must make. Without adequate planning and resources, an unexpected home repair can place a financial hardship on the homeowner. Since the unexpected should be the expected with home repairs, a home warranty is one affordable prevention measure to take.

IMPLEMENTATION RESPONSIBILITIES:

Effective with the date of this memorandum, field staff members are instructed to inform applicants about the availability of home warranties available in the marketplace, using the information provided below. New borrowers are strongly encouraged to obtain a one-year home warranty. This conversation should occur after the applicant has been determined eligible but before they submit an agreement to purchase an existing home. This will allow the applicant to negotiate with the seller because the cost of the home warranty is not an eligible loan purpose and it is common for the warranty to be covered by the seller.

A home warranty is a one-year service contract that covers costly home repairs and replacements due to normal wear and tear. Homeowners simply call the home warranty company when service is needed and they only pay a service call fee for each covered repair or replacement. Contract coverage and cost can vary widely but applicants are strongly encouraged to sign-up for a plan that covers both major operating systems and appliances. Major operating systems typically include air conditioning, heating, plumbing, electrical and water heaters. Appliances covered usually include refrigerators, dishwashers, ranges/ovens/cooktops, microwaves, clothes washers and dryers. The cost of the plan also depends on the size and age of the house and the amount of service call fee selected. The lower the service call fee, the higher the cost of the plan.

Applicants should be advised to carefully review the home warranty service contract to fully understand what is covered and what is not. Well pumps and septic tanks, as an example, are typically excluded from the standard home warranty contract but most companies offer additional coverage to include these, and similar, items at an extra charge.

A home warranty is not the same thing as hazard insurance, nor is it a replacement for hazard insurance. A home warranty is optional coverage that offers repairs and replacements for covered operating systems and appliances that fail due to normal wear and tear. Hazard insurance is required by the program to protect the property against fire and weather-related damage.

Rural Development will not maintain a list of home warranty companies.

Questions regarding this memorandum should be directed to Migdaliz Bernier of the Single Family Housing Direct Loan Division at (202) 720-1474.

Sent by Electronic Mail on October 21, 2014, at 12:15 p.m. by Single Family Housing Direct Loan Division. The State Director should advise other personnel as appropriate.

October 20, 2014

TO: State Directors
Rural Development

ATTENTION: State Directors and Program Directors

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

SUBJECT: Section 515 Loan Two Percent Initial Operating Capital
(§3560 Subpart B – Direct Loan and Grant Origination)

Section 3560.304 describes requirements for borrowers to make an initial operating capital contribution to the general operating account. This Unnumbered Letter (UL) will be used to provide general information as a reminder to each State about the required initial operating capital contribution in accordance with 3560.64 and authorized use of the initial capital in accordance with 3560.304.

Requirement for Two Percent Initial Operating Contribution (3560.64)

Borrowers are required to make an initial operating capital contribution to the general operating account. The purpose of the contribution is to provide a source of capital for start-up costs including, the purchase of equipment, and paying operating, maintenance, and debt service expenses. The amount must be at least 2 percent of the total development cost or appraised value, whichever is less.

- Non-profit organizations, consumer cooperatives, and State or local public agencies that are not receiving Low-Income Housing Tax Credits, may use loan funds for their initial operating capital contribution. All other borrowers must fund the initial operating capital contribution from the borrower's own resources.

EXPIRATION DATE:
October 31, 2015

FILING INSTRUCTIONS:
Housing Programs

- Borrowers must provide a list of materials and equipment to be funded from the general operating account for initial operating expenses to the Agency for approval. These items may include, but are not limited to, property and liability insurance premiums, fidelity bond premiums when the applicant is an organization, utility hook-up charges and deposits, maintenance and other equipment, lease forms, loan payments that may become due during construction, purchase of office equipment and furniture, community room furnishings, other movable equipment and furnishing, advertising expenses, management fees, etc. Initial operating capital may be used only to pay for approved budgeted expenses. If total initial operating expenses exceed 2 percent, borrowers that meet the provisions of 3560.64(a) that do not have sufficient resources for this purpose may request Agency assistance. Reserve account withdrawals will not be approved for initial operating contribution expenses.
- Borrowers must provide the Agency with documentation to support their initial operating capital contribution prior to the start of construction or loan closing, whichever comes first. Funds thereafter may only be used for authorized budgeted purposes.
- Form RD 3560-7, “*Multiple Family Housing Project Budget/Utility Allowance*”, will indicate the estimated initial operating capital that is needed. An additional amount will be contributed for materials and equipment not generally shown on Form RD 3560-7.

Authorized Uses of the Initial Operating Contribution (3560.304)

Initial operating capital may be used only to pay for approved budget expenses. Initial operation capital funds may be withdrawn by a borrower if:

- The initial operating capital was provided from the borrower’s own funds,
- The borrower requests the withdrawal after the second year of housing project operations and prior to the seventh year of operations,
- The housing project has had a 90 percent occupancy rate for a period of 12 months prior to the withdrawal requests,
- The withdrawal request will not result in rent increases, and
- There are no outstanding deficiencies in management’s physical maintenance of the housing project.

If the conditions specified in this section are not met, funds contributed as initial operating capital may be returned to the borrower.

Questions regarding this UL may be directed to Melinda Price of the Multi-Family Housing Preservation and Direct Loan Division, at (614) 255-2403 or e-mail melinda.price@wdc.usda.gov.