



United States
Department of
Agriculture

Rural Development



Loan Note Guarantee and Indemnification

Single Family Housing Guaranteed Loan Program



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Training Objectives

- Where is the topic located?
 - * 7 CFR Part 3555 and HB-1-3555
- Learning Checks
- Resources



Things change!

- Every effort has been made to ensure training references are accurate at the time of publication.
- Always reference the most recent USDA publications available online.



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Guaranteed Loan Program Regulation


7 CFR Part 3555

- The regulation is the rule!
- 8 Subparts: A – H
- Appendix 1




7 CFR Part 3555

<http://www.rd.usda.gov/publications/regulations-guidelines>





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7 CFR Part 3555

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Chapter 19 - Custodial and Real Estate Owned Property

Chapter 20 - Loss Claims - Collecting on the Guarantee

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7 CFR Part 3555

3555.108

Full faith and credit.

- (a) General.
- (b) Interest.
- (c) Violations.
- (d) Indemnification.



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7 CFR Part 3555: 3555.108

Sec. 3555.108 Full faith and credit.

- (a) General. The Loan Note Guarantee constitutes an obligation supported by the full faith and credit of the United States and is incontestable except for fraud or misrepresentation of which the lender has actual knowledge at the time it becomes such lender or which the lender participates in or condones. Misrepresentation includes negligent misrepresentation.
- (b) Interest. A note that provides for the payment of interest on interest, however, shall not be guaranteed. If the note to which the Loan Note Guarantee is attached or relates provides for the payment of interest on interest, then the Loan Note Guarantee is void. Notwithstanding the prohibition of interest on interest, interest may be capitalized in connection with re-amortization under subpart G of this part.



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7 CFR Part 3555: 3555.108

- (c) Violations. The Loan Note Guarantee will be unenforceable by the lender to the extent any loss is occasioned by violation of usury laws, civil rights laws, negligent servicing, failure to obtain the required security or use of loan funds for unauthorized purposes, regardless of the time at which Rural Development acquires knowledge of the foregoing. Negligent servicing is defined as servicing that is inconsistent with this subpart and includes the failure to perform those services which a reasonably prudent Lender would perform in servicing its own loan portfolio of loans that are not guaranteed. The term includes not only the concept of a failure to act, but also not acting in a timely manner or acting contrary to the manner in which a reasonably prudent Lender would act up to the time of loan maturity or until a final loss is paid.



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7 CFR Part 3555: 3555.108

(d) Indemnification. The loan note guarantee will remain in effect for any holder of the loan who acquired it from an originating lender. If the Agency determines that a lender did not originate a loan in accordance with the requirements in this part, and the Agency pays a claim under the loan guarantee, the Agency may revoke the originating lender's eligibility status in accordance with subpart B of this part and may also require the originating lender:

- (1) To indemnify the Agency for the loss, if the default leading to the payment of loss claim occurred within five (5) years of loan closing, when one or more of the following conditions is satisfied:
 - (i) The originating lender utilized unsupported data or omitted material information when submitting the request for a conditional commitment to the Agency;
 - (ii) The originating lender failed to properly verify and analyze the applicant's income and employment history in accordance with Agency guidelines;



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7 CFR Part 3555: 3555.108(d)(1)

- (iii) The originating lender failed to address property deficiencies identified in the appraisal or inspection report that affect the health and safety of the occupants or the structural integrity of the property;
- (iv) The originating lender used an appraiser that was not properly licensed or certified, as appropriate, to make residential real estate appraisal in accordance with § 3555.103(a); or,



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7 CFR Part 3555: 3555.108(d)

- (2) To indemnify the Agency for the loss regardless of how long ago the loan closed or the default occurred, if the Agency determines that fraud or misrepresentation was involved with the origination of the loan.
- (3) In addition, the Agency may use any other legal remedies it has against the originating lender.



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Guaranteed Loan Program Technical Handbook

HB-1-3555

- Provides guidance to support the regulation
- HB is not the rule
- 20 Chapters

HB-1-3555

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HB-1-3555

- 16.6 AGENCY REVIEW OF CLOSING DOCUMENTS AND ISSUANCE OF THE LOAN NOTE GUARANTEE
 - A. Incomplete Closing Documents
 - B. Acceptable Closing Documents
 - C. Unacceptable Closing Documents
- 16.7 CLOSING DATE
- 16.8 DUPLICATE LOAN NOTE GUARANTEE



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HB-1-3555: 16.6 Agency Review of Documents and Issuance of Loan Note Guarantee

A. Incomplete Closing Documents

- 30 days to correct

B. Acceptable Closing Documents

- LNG is issued

C. Unacceptable Closing Documents

- Correction may be eligible, otherwise LNG denied



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HB-1-3555: 16.7 Closing date

- Date on closing disclosure
- Interest credit may be eligible



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CHAPTER 20: LOSS CLAIMS – COLLECTING ON THE GUARANTEE

20.1 OVERVIEW

20.2 LOSS CLAIM COVERAGE

- A. Loan Guarantee Limits
- B. Losses Covered by the Guarantee
- C. Reasonable and Customary

20.3 FILING A LOSS CLAIM

- A. Property That is Sold
- B. Unsold Real Estate Owned (REO) Property
- C. Definition of Value Types in the Appraisal Process and General Procedures
- D. Loss Administration – Record the Loss Claim in GLS



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HB-1-3555: 20.2 Loss Claim Coverage

A. Loan Guarantee Limits

Maximum payment is lesser of:

- 90% of original principal amount or
- 100% of loss equal to 35% of original principal amount plus 85% of remaining loss up to 65% of original principal amount



HB-1-3555: 20.2 A, Loan Guarantee Limits

Example: Original principal amount: \$165,000

1. $\$165,000 \times 90\% = \$148,500$

2. $\$165,000 \times 35\% = \$57,750$

$65\% \text{ of } \$165,000 = \$107,250$

$85\% \text{ of } \$107,250 = \$91,162.50$

$\$57,750 + \$91,162.50 = \$148,912.50$

Maximum loss claim payout: \$148,500

HB-1-3555

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HB-1-3555

- 4.7 REPORT SIGNIFICANT CHANGES
- 4.8 ADHERE TO SFHGLP GUIDELINES
- 4.9 INDEMNIFICATION
- 4.10 PREVENT MORTGAGE FRAUD



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HB-1-3555: 4.9 Indemnification

- Originating lender
- Defaults within 60 months of loan closing
- Unsupported data or omitted material information
- Failure to verify/analyze income or employment
- Identified property deficiencies
- Ineligible appraiser



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HB-1-3555: 4.9 Indemnification

- Originating lender
- No timeframe from loan closing
- Loss due to fraud and misrepresentation



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UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
RURAL HOUSING SERVICE

Form Approved
OMB No. 0575-0179

Form RD 3555-17/17E

LOAN NOTE GUARANTEE

	State
	County
	Date of Note (Settlement Date)
Borrower Name	RHS Case No. (State, County, SSN)
	RHS Borrower ID
Lender	Lender IRS ID No.
Lender's Address	Principal Amount of Loan
	\$

This Loan Note Guarantee is issued under Lender Agreement for Guaranteed Single Family Housing Loans dated [] in connection with the above identified loan.

In consideration of the making of the subject loan by the Lender, the United States of America, acting through the Rural Housing Service of the Rural Development mission area (herein called "RHS"), pursuant to Title V of the Housing Act of 1949 (42 U.S.C. 1471 et. sec.), agrees that, subject to the terms and conditions herein, it will pay to the Lender the lesser of

1. Any loss of an amount equal to 90 percent of the principal amount actually advanced to the Borrower, or
2. Any loss sustained by the lender of an amount up to 35 percent of the principal amount actually advanced to the Borrower, plus 85 percent of any additional loss sustained by the Lender of an amount up to the remaining 65 percent the principal amount actually advanced to the Borrower.

Loss includes only (a) principal and interest evidenced by the Note; (b) any loan subsidy due and owing; and (c) any principal and interest indebtedness on RHS approved protective advances for protection and preservation of collateral. Interest (including any subsidy) shall be covered by the Loan Note Guarantee up to 90 days from the Lender's acquisition of the collateral or date of the initial loss settlement, whichever is earlier. Net proceeds received from liquidation of the collateral will be used in calculating the amount of loss sustained by the Lender. If the Lender acquires the collateral, the net proceeds from collateral for calculating loss shall be determined by RHS as follows: (i) the collateral will be appraised as of the date of acquisition by the Lender then (ii) deduct from such appraised value an estimate of liquidation cost which will include an allowance for 90 days, the estimated time the property will be held by the Lender.

If RHS conducts the liquidation of the loan, loss occasioned to a Lender by accruing interest after the date RHS accepts responsibility for the liquidation will not be covered by the Loan Note Guarantee.

Lender may sell the guaranteed loan only to a Lender which meets the qualifications and in the manner as provided in 7 CFR part 3555.

Lender may obtain participation in its loan under its procedures. Participation means a sale of an interest in the loan wherein the Lender retains the note, collateral securing the note, and all responsibility for all loan servicing and liquidation. A participant has no rights under this instrument.

CONDITIONS OF THE GUARANTEE

1. Loan Servicing

Lender will be responsible for servicing the entire loan and Lender will remain mortgagee and/or secured party of record. The Lender may sell loan servicing rights to an RHS eligible Lender when the purchasing Lender agrees to be bound by all of the same terms as the selling Lender and this agreement and the RHS Lender Agreement for Guaranteed Single Family Housing Loans.

2. Full Faith and Credit

The Loan Note Guarantee constitutes an obligation supported by full faith and credit of the United States and is incontestable except for fraud or misrepresentation of which the lender has actual knowledge at the time it becomes such lender or which the lender participates in

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 0575-0078. The time required to complete this information collection is estimated to average 5 minutes per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information.



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**UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT
RURAL HOUSING SERVICE**

Form Approved
OMB No. 0575-0179

LOAN NOTE GUARANTEE

		State <input type="text"/>
		County <input type="text"/>
		Date of Note (Settlement Date) <input type="text"/>
Borrower Name <input type="text"/>	RHS Case No. (State, County, SSN) <input type="text"/>	
	RHS Borrower ID <input type="text"/>	
Lender <input type="text"/>	Lender IRS ID No. <input type="text"/>	
Lender's Address <input type="text"/>	Principal Amount of Loan \$ <input type="text"/>	



Form RD 3555-17/17E

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RHS Borrower ID: _____

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or condones. A note which provides for the payment of interest on interest shall not be guaranteed. If the note to which this instrument is attached or relates provides for the payment of interest on interest, then this Loan Note Guarantee is void. In addition, the Loan Note Guarantee will be unenforceable by the lender to the extent any loss is occasioned by violation of usury laws, negligent servicing, or failure to obtain the required security regardless of the time at which RHS acquires knowledge of the foregoing. Any losses occasioned will be unenforceable by the lender to the extent that loan funds are used for purposes other than those approved by RHS in its Form RD 3555-18, "Conditional Commitment for Single Family Housing Loan Guarantee." Negligent servicing is defined as the failure to perform those services which a reasonably prudent lender would perform in servicing its own loan portfolio of loans that are not guaranteed. The term includes not only the concept of a failure to act but also not acting in a timely manner or acting contrary to the manner in which a reasonably prudent lender would act up to the time of loan maturity or until a final loss is paid. If RHS determines that a Lender did not originate a loan in accordance within the requirements in 7 CFR part 3555, and RHS pays a claim under the loan guarantee, RHS may revoke the Lenders' eligibility status in accordance with Section 3555.52 and may also require the Lender: (1) To indemnify RHS for the loss, if the payment under the guarantee was made within 60 months of loan closing; or (2) To indemnify RHS for the loss regardless of how long ago the loan closed, if RHS determines that fraud or misrepresentation was involved in connection with the origination of the loan in accordance with Section 3555.108.

3. Lender will receive all payments of principal and interest, annual fee, and any loan subsidy on the account of the entire loan.

4. The Loan Note Guarantee is subject to an annual fee billed to the Lender and collected by the Agency on an annual basis for the life of the loan, based upon an annual fee percentage of: _____. The annual fee will be based on the average annual scheduled unpaid principal balance of the loan and may be passed on to the guaranteed loan borrower. A late charge will be charged if the fee is not paid by the date set by RHS.

5. Protective Advances made by the Lender pursuant to RHS regulations will be guaranteed against a percentage of the loss to the same extent as provided in the Loan Note Guarantee.

6. The Loan Note Guarantee will terminate automatically (a) upon full payment of the guaranteed loan; or (b) upon full payment of any loss obligation hereunder; or (c) upon written notice from the Lender to RHS that the guarantee will terminate provided this Loan Note Guarantee is returned to be canceled by RHS.

7. Any amount due under this instrument will be determined and paid, as provided in 7 CFR part 3555 in effect on the date of this instrument.

8. All notices and actions may be initiated through Rural Development National Financial and Accounting Operations Center at the following email address: RD.DCFO.GLB@stl.usda.gov.

UNITED STATES OF AMERICA
RURAL DEVELOPMENT
RURAL HOUSING SERVICE

By: _____

Title: _____

Date: _____

Assumption Agreement by: _____

(Transferor)

Dated: _____

Assumption Approved by RHS: _____

(new note, if taken, is attached)

Dated: _____

Assumption Agreement by: _____

(Transferor)

Dated: _____

Assumption Approved by RHS: _____

(new note, if taken, is attached)

Dated: _____



United States
Department of
Agriculture

Rural Development



Form RD 3555-17/17E

Form RD 3555-17

(Rev. 06-16)

Page 2 of 2 - Borrower Name: _____

RHS Borrower ID: _____

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Form RD 3555-17/17E

3. Lender will receive all payments of principal and interest, annual fee, and any loan subsidy on the account of the entire loan.
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8. All notices and actions may be initiated through Rural Development National Financial and Accounting Operations Center at the following email address: RD.DCFO.GLB@stl.usda.gov.



Form RD 3555-17/17E

UNITED STATES OF AMERICA
RURAL DEVELOPMENT
RURAL HOUSING SERVICE

By: _____
Title: _____
Date: _____

Assumption Agreement by: _____ Dated: _____
(Transferee)

Assumption Approved by RHS: _____ Dated: _____
(new note, if taken, is attached)

Assumption Agreement by: _____ Dated: _____
(Transferee)

Assumption Approved by RHS: _____ Dated: _____
(new note, if taken, is attached)



TIPS

- Underwriter = USDA Approved Lender
- USDA = not an underwriter
- Research Rule & HB questions: Table of Contents
- Research Rule & HB questions: Control + F

7 CFR Part 3555

supplemental social security income and Social Security benefits received in a lump sum;

(vii) Any earned income tax credit;

(viii) **Adoption** assistance in excess of any amount determined pursuant to HUD's definition of annual income at 24 CFR 5.609(c);

Find x

Adoption

Previous Next



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7 CFR PART 3555 / HB-1-3555

LEARNING CHECKS



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Question Slide

“Topic”

- Question will be bulleted with scenario, or
- Include a statement/question

TRUE/FALSE or other answer options will be displayed



ANSWER SLIDE

“Topic”

ANSWER: 7 CFR Part 3555 and HB-1-3555 references provided

X. Correct Response

- Additional guidance for clarification may be provided



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LET'S
GET STARTED.



LNG and Indemnification

Loan Note Guarantees may only be issued to USDA approved lenders.

A. TRUE B. FALSE



LNG and Indemnification

ANSWER: 3555.108 and HB 16.6 A

A. TRUE

- A Third Party Originator (TPO) and non-USDA approved lenders may not receive Conditional Commitments or Loan Note Guarantees (LNG)



LNG and Indemnification

Form RD 3555-17 must be printed, signed, and mailed to the approved lender.

A. TRUE B. FALSE



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LNG and Indemnification

ANSWER: 3555.108 and HB 16.6 B

B. FALSE

- The Loan Note Guarantee is issued electronically
- Form RD 3555-17E denotes the form was issued electronically



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LNG and Indemnification

- Bixby Bank receives LNG
- Loan is sold to Orange Lending
- Loss is paid three years post closing
- Review determines negligence in origination
- Who is responsible to indemnify USDA

A. Bixby Bank

B. Orange Lending



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LNG and Indemnification

ANSWER: 3555.108(d) and HB 4.9

A. Bixby Bank

- Indemnification applies to originating lender
- Servicers/Holder will be reimbursed under the terms of the LNG
- USDA will pursue indemnification



LNG and Indemnification

USDA may pursue indemnification from an originating lender up to ____ months post loan closing due to misrepresentation of material loan data.

- A. 30 B. 60



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LNG and Indemnification

ANSWER: 3555.108(d) and HB 4.9

B. 60

60 months from loan closing applies for errors regarding:

- Misrepresentation/omissions
- Improper analysis of income/employment
- Failure to correct property deficiencies
- Ineligible appraiser



LNG and Indemnification

USDA may pursue indemnification from an originating lender _____ post loan closing due to fraud and negligence.

- A. up to 60 months B. with no time limit



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LNG and Indemnification

ANSWER: 3555.108(d) and HB 4.9

B. with no time limit

- Fraud and negligence to the U.S. Government are always eligible for indemnification



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LNG and Indemnification

- Loan closing received
- Conditional Commitment interest rate: 4.5%
- Lender closed the loan at 5.00%
- USDA must deny the LNG request

A. TRUE B. FALSE



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LNG and Indemnification

ANSWER: 3555.108 and HB 16.6 A

B. FALSE

- Lender may have 30 days to correct interest rate
- USDA may offer additional remedy options
- If no resolution is achieved, LNG must be denied



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LNG and Indemnification

- Loan closing received
- USDA notifies lender of items that require correction
- Lender does not respond within 30 day timeframe
- USDA must deny the LNG request

A. TRUE B. FALSE



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LNG and Indemnification

ANSWER: 3555.108 and HB 16.6 A

A. TRUE

- USDA provided 30 days to correct
- Lender has not responded
- Lender notification requesting additional time to correct will be honored



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LNG and Indemnification

- Loan closing received
- Borrower received \$500 back at loan closing
- Borrower had \$250 of eligible funds in the transaction
- The loan closed at or below the amount authorized on the Conditional Commitment
- USDA must deny the LNG request

A. TRUE B. FALSE



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LNG and Indemnification

ANSWER: 3555.108 and HB 16.6 A

B. FALSE

- Lender can apply \$250 to the principal loan balance
- The closed loan did not exceed the authorized amount on the commitment



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LNG and Indemnification

- Sunny Lending was issued a LNG
- They are selling the loan to Grey Bank but cannot find the LNG
- Sunny Lending may request a copy of the LNG from USDA

A. TRUE B. FALSE



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LNG and Indemnification

ANSWER: 3555.108 and HB 16.8

A. TRUE

- The approved lender may request a duplicate copy of the LNG
- A TPO and non-approved lenders may not access or request copies of the LNG



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**WAY
TO GO!**



Regulations

<http://www.rd.usda.gov/publications/regulations-guidelines>



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Regulations & Guidelines

All Federal regulations can be found at [Regulations.gov](#) and customers can search, review and submit comments on Federal documents that are open for comment and published in the [Federal Register](#).

As a service to our customers, we post Rural Development's Instructions, Administrative Notices, and forms. The Instructions are available in three file formats: Adobe Acrobat (PDF), Microsoft Word 6.0 (doc) and Text (txt). To the extent possible, all documents have been made available in either Adobe Acrobat Ver 5.0 and higher, or Text and are 508 compliant. If you should have accessibility issues and need a hard copy, please send an e-mail to comments@wdc.usda.gov.

If you are having problems with this page, need a hard copy of any of the documents due to accessibility issues or would like to be added to the Regulations Update distribution list (available for Rural Development employees only with a valid Rural Development e-mail address), please e-mail comments@wdc.usda.gov.

Rural Development

- Administrative Notices
- Instructions
- Forms
- Spanish Forms, Form Letters and Guide Letters
- Handbooks
- Procedures Notices
- Significant Guidance Documents
- Unnumbered Letters
- Federal Register Publications



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the USDA Single Family
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Program!





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