Welcome to Loan Note Guarantee and Indemnification, presented by USDA’s Single Family Housing Guaranteed Loan Program!
The objectives of the training include:

1. Demonstrating where the training topic is located in the program regulation, 7 CFR Part 3555 and the technical handbook, HB-1-3555.
2. Providing learning checks to help you gain a working knowledge of the topic, and
3. Links to online resources to assist in locating program information.
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.

Every effort has been made to ensure this training and all references are accurate, however, new program revisions and clarifications may occur. Therefore, please ensure you always reference the most recent USDA publications available online.

This training module is not intended to replace the need to reference the regulation, technical handbook, and additional USDA published documents regarding the Guaranteed Loan Program.
7 CFR Part 3555 is the program regulation. It is the first place users should look for the answers to their questions.
The regulation is the rule and it cannot be overridden by the technical handbook.
The 7 CFR Part 3555 is comprised of 8 subparts, A through H.
You can access the full regulation online as Appendix 1 from the Regulations and Guidelines website.
The Regulations and Guidelines website is located from the link shown on the slide.

Under “Rural Development” there are many items available from this home page.

To access the regulation, select “Handbooks.”
A list of all USDA Rural Development handbooks will display.

Be sure to select the correct technical handbook: HB-1-3555.

Once HB-1-3555 is selected, the entire handbook, including all appendix will display for selection.

Appendix 1 is the full regulation, 7 CFR Part 3555.
Loan Note Guarantee specifics and Indemnification are located in Subpart C, Section 3555.108.
3555.108 states that a Loan Note Guarantee constitutes an obligation supported by the full faith and credit of the United States. It is incontestable except for fraud or misrepresentation that the lender has actual knowledge and freely participates in to obtain Loan Note Guarantees.

Promissory notes that provide for the payment of interest on interest will not be guaranteed, and the Loan Note Guaranteed will be void. This does not include capitalized interest that may occur due to reamortization that may occur for an eligible loss mitigation solution under the regulation.
If any loss incurred by the lender is due to violation of usury or civil rights laws, negligent servicing, or other infractions in direct conflict of the regulation the Loan Note Guarantee may be unenforceable. Negligent servicing is defined as being inconsistent with the regulation and includes the lender failing to take prudent actions on USDA guaranteed loans as opposed to those loans that are not guaranteed.
3555.108(d) outlines indemnification. When an approved lender purchases a loan from another approved lender the loan note guarantee will remain in effect.

Loss claims that are paid but USDA determines the loan was not originated under the terms of the regulation, the originating lender will be responsible to indemnify or repay USDA for the loss claim and could have their approved lender status revoked.

USDA may pursue an originating lender for a loss up to 5 years following loan closing when the cause of the default led to the loss claim. This may be due to the lender using unsupported data or omitting adverse information when submitting the loan to USDA for a Conditional Commitment or loan closing or the lender failed to properly verify and analyze the applicant’s income and employment history.
Indemnification may also be pursued if the originating lender failed to address property deficiencies that were clearly identified in the appraisal or inspection report if applicable, or if the appraiser selected by the originating lender was not properly licensed or certified to complete the required residential appraisal.
USDA may also pursue the originating lender regardless of how long ago the loan closed or when the default occurred when the Agency determines the originating lender has committed fraud or negligent misrepresentation.

USDA may pursue all applicable legal remedies against the lender.
The 7 CFR Part 3555 regulation cannot cover every topic and every potential scenario, therefore a technical handbook has been published to support the regulation and provide additional clarification. HB-1-3555 has 20 chapters.
The handbook may be accessed from the Regulations and Guidelines website. Loan Note Guarantee guidance is located in Chapters 16 and 20.
This screen shot displays the Table of Contents of Chapter 16. This helps the user to locate specific topics more quickly. Chapter 16 provides guidance for lenders seeking to submit closing documents and request a Loan Note Guarantee.
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

HB Chapter 16, section 16.6 provides guidance for potential outcomes of the Agency review of loan closing documents submitted by the lender when requesting a Loan Note Guarantee:

A. Incomplete closing documents will result in USDA contacting the lender to request missing documents within the next 30 days. Once the lender remits the required documents, USDA can issue the Loan Note Guarantee.

B. When a complete closing package is received with acceptable documents, then USDA will issue the Loan Note Guarantee.

C. If unacceptable loan closing documents are received, USDA will contact the lender to determine if correct documents can be submitted. If no, the Loan Note Guarantee request will be unable to be honored.
Section 16.7 clarifies that the loan closing date is the date of the closing disclosure.

An applicant may also elect to have an interest credit settlement, where the interest may be paid at loan closing to the first of the previous calendar month.
Handbook Chapter 20 includes guidance on the loss claim coverage provided to the approved lender under the Loan Note Guarantee.
Section 20.2 details the maximum loss claim payment due from the Agency. The maximum payment is the lesser of:
• 90% of the original principal amount or
• 100% of the loss equal to 35% of the original principal amount plus 85% of the remaining loss up to 65% of the original principal amount

What does that really look like?
HB-1-3555: 20.2 A, Loan Guarantee Limits

**Example:** Original principal amount: $165,000

1. $165,000 x 90% = $148,500
2. $165,000 x 35% = $57,750
   - 65% of $165,000 = $107,250
   - 85% of $107,250 = $91,162.50
   - $57,750 + $91,162.50 = $148,912.50

**Maximum loss claim payout:** $148,500

This is an example of the two potential loss claim payments for an original principal amount of $165,000.

In the 90% maximum example, the payment may not exceed $148,500.

The second calculation would include 35% of the original principal amount which would be $57,750.
65% of the original principal amount is $107,250, and 85% of that figure is $91,162.50.
When you add the 35% calculation with the 85% calculation the total is $148,912.50.

USDA is only obligated to pay the lesser of these two calculations. Therefore the maximum payout for this example is $148,500.
Indemnification guidance is located in Chapter 4.
The Table of Contents in Chapter 4 specifically refers to section 4.9.
Section 4.9 supports the guidelines of 3555.108. To summarize, indemnification rests with the originating lender. USDA may pursue indemnification for defaults within 5 years or 60 months of loan closing when the lender is found to be outside of the regulation for:

- Unsupported data or omitted material,
- Failure to properly verify or analyze income and employment,
- Failure to address identified property deficiencies, or
- Use of an ineligible appraiser to complete the appraisal report.
4.9 also states the originating lender may be pursued with no timeframe when the loss is paid due to fraud or blatant misrepresentation of the loan file that contributes to the loss.
The “Loan Note Guarantee” is Form RD 3555-17. To view a blank Loan Note Guarantee, return to the Regulations and Guidelines home page and select “Forms.”
In the top screen shot, select “Browse Forms.”

In the second lower screen shot, enter the “Form Number” as “3555-17” and then select “Search.”
Form RD 3555-17 will be available for selection. Click on the displayed “Form Number.”
When the Loan Note Guarantee is issued electronically, the form will be “3555-17E.”

The Loan Note Guarantee is two pages in length.
At the top of page information displays for:

- Borrower Name
- Approved Lender
- Approved Lender’s Address
- The State and County where the property is located
- The Date of the Promissory Note or Settlement date
- USDA Case No.
- Randomly generated Borrower ID
- Lender Tax ID number
- Principal Amount of Loan that is guaranteed under the terms of this Form
The first page of the Loan Note Guarantee will include the date of the approved lender’s agreement, Form RD 3555-16.

The terms of the Loan Note Guarantee coverage in the event of a loss claim are listed along with the eligible loan purposes that may be reimbursed under the guarantee.

Accrued interest and the treatment of net proceeds from the liquidation of the collateral will be considered in the loss claim payment.

Lenders may sell guaranteed loans only to other USDA approved lenders.
The conditions of the guarantee include specific guidance for loan servicing and full faith and credit of the U.S. government.
This slide provides a screen shot of page 2 of the Loan Note Guarantee.
Page 2 will include the Borrower’s Name and Borrower ID at the top.

The “Full Faith and Credit” information that started on page one is completed. This portion of the guarantee also includes indemnification language.
If the loan is subject to an annual fee, the applicable percentage will be listed in item #4. The annual fee will not change once the loan is closed and it is due for the life of the loan.

Other items listed include protective advances, termination of the guarantee, and the email address for the National Finance and Accounting Operations Center where applicable actions may be required to be reported.
At the bottom of page 2 the USDA approval official’s signature will appear with the date the Loan Note Guarantee was executed.

If the guaranteed loan is ever assumed, the new party to the loan will be noted on this form. Guaranteed loans may be assumed, but the original borrowers are not released from liability.
TIPS

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

A few helpful tips:
1. The underwriter of the loan is the approved lender’s underwriter.
2. USDA is NOT the underwriter of the loan.
3. When researching topics, it is helpful to begin with the Table of Contents for the regulation and the handbook.
4. A great best practice when searching for information is to open the regulation or a handbook chapter, select the “Control” button on the keyboard, hold it down, and then also select the “F” key. A keyword search box will appear. Enter a keyword or phrase to locate information more quickly.
The best way to learn information is to test your knowledge!
Each question slide will list:
• the topic
• A question or scenario, and
• potential responses.

“Topic”

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

TRUE/FALSE or other answer options will be displayed
The answer slide will list:
- The topic
- The reference to the answer from the regulation and handbook
- The correct response, and
- Any additional clarification that may be helpful.
Let’s get started!
LNG and Indemnification

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

A. TRUE  B. FALSE

Read the question on the slide and select a response.
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)

True
Only USDA approved lenders may receive a Loan Note Guarantee.

Third Party Originator’s and non-USDA approved lenders may not receive a Conditional Commitment or a Loan Note Guarantee.
Read the question on the slide and select a response.

LNG and Indemnification

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

A. TRUE    B. FALSE
False

USDA is not obligated to issue a paper Loan Note Guarantee. USDA is issuing Loan Note Guarantees electronically. Lenders can receive their guarantee in a more efficient and paperless manner. Form RD 3555-17E denotes the form was issued electronically.
Read the question on the slide and select a response.

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
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

Response A: Bixby Bank
Indemnification applies to the originating lender.
If one USDA approved lender purchases a guaranteed loan from another USDA approved lender the Loan Note Guarantee remains valid.
The new holder/servicer of the loan is eligible to be reimbursed under the terms of the guarantee in the event of a loss claim.
USDA may pursue indemnification of the originating lender.
Read the question on the slide and select a response.

**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
Response B.
For origination errors regarding
• Misrepresentations/omissions
• Improper analysis of income or employment
• Failure to address or correct identified property deficiencies, or
• Use of an ineligible appraiser
USDA has 60 months from the loan closing date to pursue indemnification.
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

Read the question on the slide and select a response.
Response B
There is no time limit for indemnification when fraud and negligent misrepresentation are involved in the origination of a guaranteed loan.
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

Read the question on the slide and select a response.
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

False
Lenders are allowed up to 30 days to correct issues with loan closing documents. USDA can release the loan file back to the lender for correction. This will allow the lender and USDA to ensure the loan remains eligible with the higher interest rate. The lender may modify their promissory note to reflect an interest rate that is at or below the authorized interest rate noted on the Conditional Commitment issued to them by USDA.
If no resolution can be achieved, then the loan has not closed under the authorized terms of the Conditional Commitment and a Loan Note Guarantee cannot be issued.
Read the question on the slide and select a response.

**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
True
USDA provided the lender with notice of the needed corrections, missing items, etc. The lender has not taken any action to correct the deficiencies nor contacted USDA to request additional time.
When a lender contacts USDA to request additional time, there is no reason why it cannot be granted.
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

Read the question on the slide and select a response.
False
Because the loan closed at or below the amount authorized on the Conditional Commitment, the lender can apply the unauthorized $250 to the principal loan balance.
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

Read the question on the slide and select a response.
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

True

An approved lender may request a duplicate copy of an issued Loan Note Guarantee. Third Party Originators and non-approved USDA lenders may not access or request copies of guarantees.
Way to go! You have completed the learning checks!
Don’t forget the Regulations and Guidelines website is a wonderful source of USDA guideline knowledge.
Please sign up for GovDelivery messages. USDA sends out origination (including GUS) and servicing messages to alert lenders of new publications, clarifications, and additional program updates.
Thank you for supporting the USDA Single Family Housing Guaranteed Loan Program! We appreciate the opportunity to help you serve more rural homebuyers!
This will conclude the training module. Thank you and have a great day!