

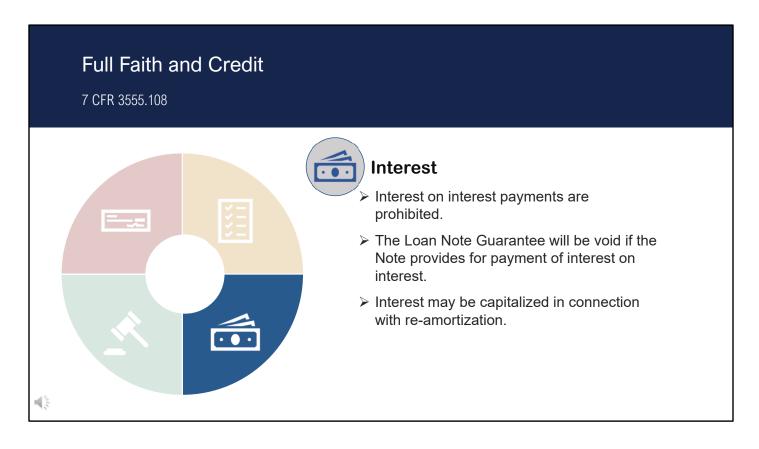
Welcome to the Loan Note Guarantee training module presented by USDA's Single Family Housing Guaranteed Loan Program.



The Loan Note Guarantee is the evidence of the Agency backing should the loan ever default, so understanding the proper procedures and rules of issuance are paramount to ensuring secondary market salability and the note holder's protection.

Full Faith and Credit 7 CFR 3555.108 General Loan Note Guarantee (aka "LNG") Represents an obligation which is supported by full faith and credit of the United States. Incontestable except for fraud or misrepresentation of which the lender has actual knowledge of. Misrepresentation includes negligent misrepresentation on behalf of the lender.

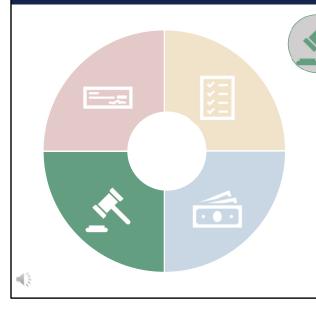
- The Loan Note Guarantee represents an obligation from the United States supported by full faith and credit on which it was issued. It is incontestable unless the Agency verifies fraud or misrepresentation by the lender in which they had knowledge of at the time the loan was made.
- Misrepresentation includes negligent misrepresentation on behalf of the lender.



- Guarantees are not permitted for loans that are structured for payment of interest on interest.
- In situations where the Note that the Loan Note Guarantee is attached provides for payment of interest on interest, then the guarantee is void.
- However, guarantees are permitted where interest is capitalized in connection with loans that are re-amortized.

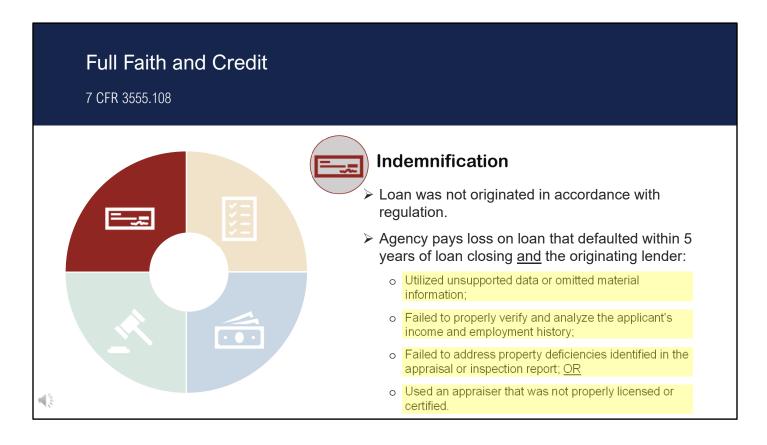
Full Faith and Credit

7 CFR 3555.108



Violations

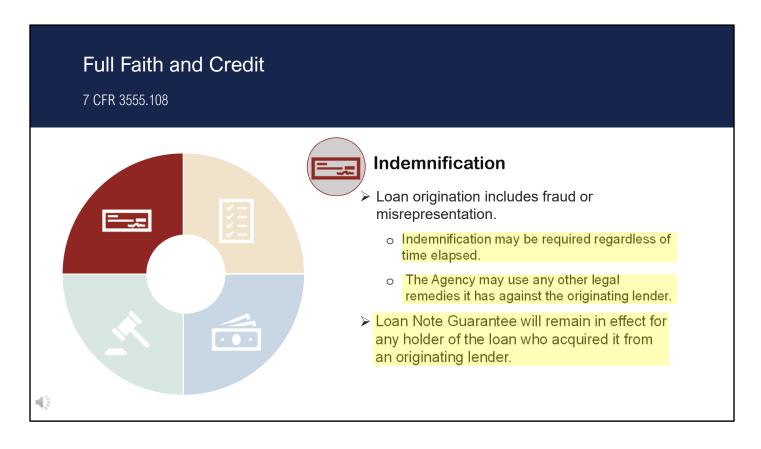
- Loan Note Guarantee will be unenforceable if loss is due to:
 - o Violation of the regulations
 - o Negligent servicing
 - Inconsistent with the regulations and failure to perform services which a reasonably prudent lender would perform.
 - Failure to act in a timely manner.
 - o Failure to obtain required security
 - Use of loan funds for unauthorized purposes
- The Loan Note Guarantee will be unenforceable if the lender has a loss due to violation of the regulations, negligent servicing, failure to obtain required security or use of loan funds for unauthorized purposes.
- Negligent servicing is defined as servicing that is inconsistent with the regulations and includes failure to perform those services which a reasonably prudent lender would perform, regardless of the guarantee.
- This also includes the failure to act in a timely manner or acting in a manner that is contrary to how a reasonably prudent lender would act.



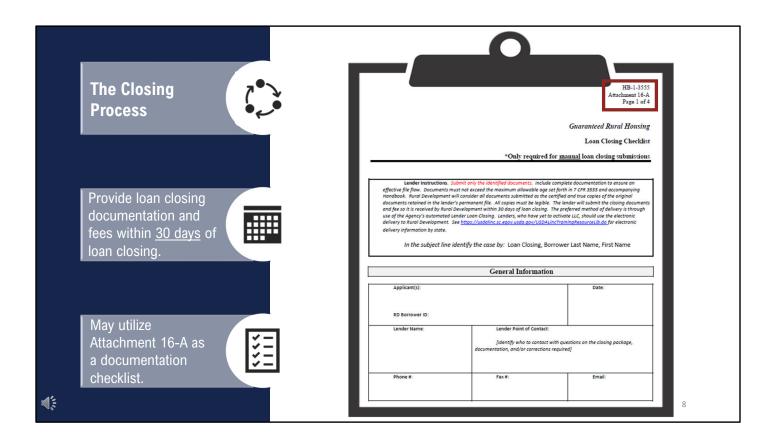
If the Agency determines that a lender did not originate a loan in accordance with the
requirements of the regulation, and the Agency pays a claim under the Loan Note
Guarantee, the Agency may revoke the originating lender's eligibility status and may also
require the originating lender to indemnify the Agency for the loss if the default leading
to the payment of loss claim occurred within 5 years of loan closing and one of the
following is present:

The originating lender:

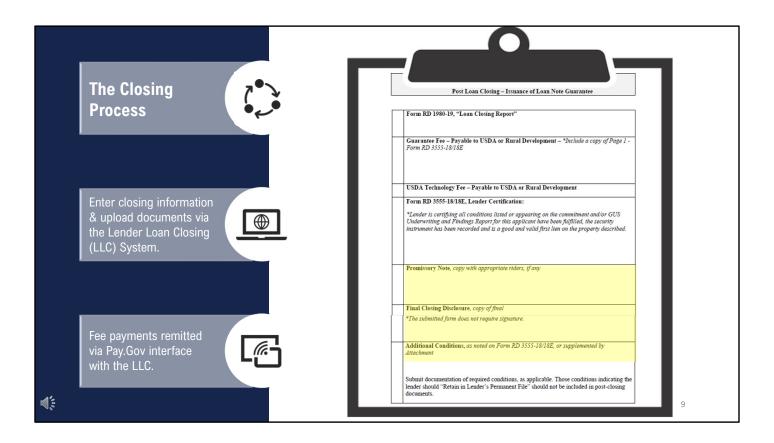
- Utilized unsupported data or omitted material information;
- Failed to properly verify and analyze the applicant's income and employment history;
- Failed to address property deficiencies identified in the appraisal or inspection report; <u>OR</u>
- Used an appraiser that was not properly licensed or certified.



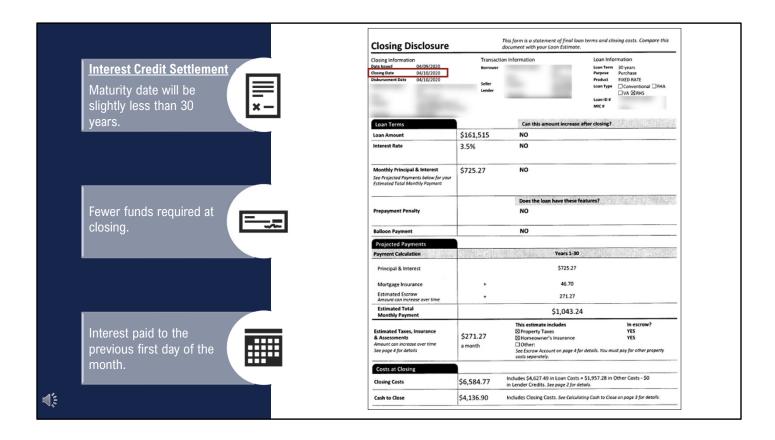
- In cases involving fraud or misrepresentation by the originating lender, the originating lender may be required to indemnify the Agency for the loss regardless of how long ago the loan closed or the default occurred.
- In addition, the Agency may use any other legal remedies it has against the originating lender.
- It's important to note that the Loan Note Guarantee will remain in effect for any holder of the loan who acquired it from an originating lender.



- Once a loan has closed, the lender must provide evidence the loan was properly closed and remit the upfront loan guarantee fee and the technology fee within 30 days.
- A guarantee will not be issued if the account is in default at the time the Lender executes the Lender Certification.
- Lenders may utilize Attachment 16-A as a documentation checklist.



- The required documentation will be uploaded via the automated Lender Loan Closing (LLC) System and the upfront guarantee fee and technology fee will be remitted via Pay.Gov which interfaces with the LLC system.
- It's important to note that lenders are required to execute and submit a Lender Loan
 Closing User Agreement to the Agency prior to gaining access to the LLC. User guides for
 gaining access to and using the LLC system can be found in the LINC Library.
- Lenders must upload the following documentation in the LLC system to receive a Loan Note Guarantee:
 - Final signed Closing Disclosure;
 - Promissory Note, and;
 - Any other necessary documentation as specified on the Conditional Commitment
- Utilizing the automated LLC eliminates the need for lenders to manually complete and submit the "Guaranteed Loan Closing Report," the Lender Certification portion of the Conditional Commitment, and a paper check.



- When entering the loan's information into the LLC, the date of closing will be defined as the closing date listed on the Closing Disclosure.
- Borrowers may elect an interest credit where interest will be paid at closing to the previous first day of the month.
- The maturity date for this type of settlement will be slightly less than 30 years.
- Should the borrowers elect an interest credit settlement, fewer funds are required at closing.
- Interest would be paid to the previous first day of the month.

Guaranteed Loan Fees

HB-1-3555, Chapter 16.4, 16.5, and 16.6



Upfront Guarantee Fee

- ✓ Current fee is 1.00%.
- ✓ Applies to purchase and refinance loans
- ✓ Can be included in the loan amount.
- ✓ Collected via the Lender Loan Closing (LLC) system at loan closing.
- ✓ Subject to change to maintain a subsidy neutral program.
- ✓ Non-refundable once the Loan Note Guarantee is issued.

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Annual Fee

- ✓ Current fee is 0.35%.
- ✓ Applies to purchase and refinance loans.
- ✓ Based on scheduled unpaid principal halance
- ✓ Servicer remits payment to the on the anniversary closing month via the Guaranteed Annual Fee (GAF) system.
- ✓ Subject to change to maintain a subsidy neutral program.

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Technology Fee

- ✓ Current fee is \$25.
- ✓ Applies to all loans processed through the Guaranteed Underwriting System (GUS).
- ✓ Can be included in the loan amount.
- ✓ Collected via the Lender Loan Closing (LLC) system at loan closing.
- ✓ Non-refundable once the Loan Note Guarantee is issued.

https://www.rd.usda.gov/page/usda-linc-training-resource-library

- The upfront guarantee fee and technology fee due at closing are non-refundable once the Loan Note Guarantee is issued.
- The annual fee will not be due until the first anniversary of the loan closing.
- To learn more about the key requirements of these 3 fees, visit the LINC library for the training module on this specific topic.

Agency Review of Closing Documents and Issuance of the Guarantee HB-1-3555, Chapter 16.7				
	Incomplete Closing Documents	Acceptable Closing Documents	Unacceptable Closing Documents	
Status	Incomplete or correctable errors allow lenders to have 30 days to correct.	Acceptable closing documents are sent to the Agency.	Closing Documents do not meet all program requirements.	
Lender	Burden of submitting a complete loan closing package is on the lender.	Lender will submit the Lender Certification and all necessary documents noted on the Conditional Commitment.	Lender did not follow Agency requirements and/or close the loan as based on the requirements of the Conditional Commitment.	
Agency	Lender will be notified of incomplete package by phone, email or regular mail.	Will review and approve closing documents and process upfront guarantee and technology fees.	Agency will not issue the LNG and insure the loan.	
Result	Agency will return the loan closing package if necessary corrections cannot be made within 30 days.	Lender will receive the LNG, Loan Amortization Schedule as an attachment to the Note	Loan funds and/or seller paid concessions may not be disbursed to the applicants	

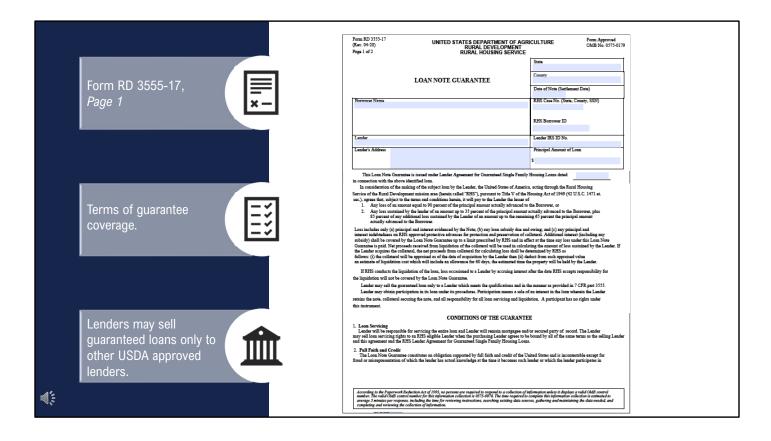
- When the lender submits incomplete closing documents:
 - The lender will be notified by the Agency that they have up to 30 days to make corrections.
 - If the loan package is not complete within 30 days, the Agency will not issue the Loan Note Guarantee and the Agency will return the closing package.

J	Agency Review of Closing Documents and Issuance of the Guarantee HB-1-3555, Chapter 16.7				
	Incomplete Closing Documents	Acceptable Closing Documents	Unacceptable Closing Documents		
Status	Incomplete or correctable errors allow lenders to have 30 days to correct.	Acceptable closing documents are sent to the Agency.	Closing Documents do not meet all program requirements.		
Lender	Burden of submitting a complete loan closing package is on the lender.	Lender will submit the Lender Certification and all necessary documents noted on the Conditional Commitment.	Lender did not follow Agency requirements and/or close the loan as based on the requirements of the Conditional Commitment.		
Agency	Lender will be notified of incomplete package by phone, email or regular mail.	Will review and approve closing documents and process upfront guarantee and technology fees.	Agency will not issue the LNG and insure the loan.		
Result	Agency will return the loan closing package if necessary corrections cannot be made within 30 days.	Lender will receive the LNG, Loan Amortization Schedule as an attachment to the Note	Loan funds and/or seller paid concessions may not be disbursed to the applicants		

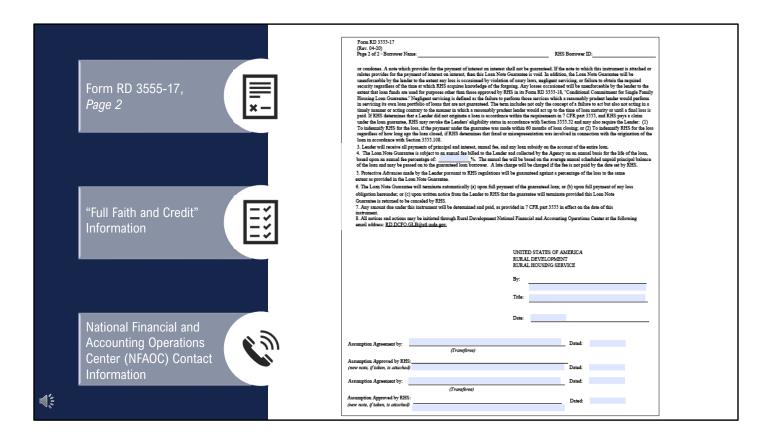
- When the lender submits acceptable closing documents:
 - The Agency will issue a Loan Note Guarantee within 10 business days of receipt of complete closing documents and payment of the upfront guarantee fee and technology fee.

,	Agency Review of Closing Documents and Issuance of the Guarantee HB-1-3555, Chapter 16.7				
	Incomplete Closing Documents		Unacceptable Closing Documents		
Status	Incomplete or correctable errors allow lenders to have 30 days to correct.	Acceptable closing documents are sent to the Agency.	Closing Documents do not meet all program requirements.		
Lender	Burden of submitting a complete loan closing package is on the lender.	Lender will submit the Lender Certification and all necessary documents noted on the Conditional Commitment.	Lender did not follow Agency requirements and/or close the loan as based on the requirements of the Conditional Commitment.		
Agency	Lender will be notified of incomplete package by phone, email or regular mail.	Will review and approve closing documents and process upfront guarantee and technology fees.	Agency will not issue the LNG and insure the loan.		
Result	Agency will return the loan closing package if necessary corrections cannot be made within 30 days.	Lender will receive the LNG, Loan Amortization Schedule as an attachment to the Note	Loan funds and/or seller paid concessions may not be disbursed to the applicants.		

- When the lender submits unacceptable closing documents:
 - The Agency will not issue the Loan Note Guarantee if there are errors in the closing documents, the loan does not meet all program requirements, does not meet conditions set forth in the Conditional Commitment, or if the applicant received unauthorized cash back at closing.
 - Loan funds and/or seller paid concessions may not be disbursed to the applicant(s).
 - If the lender can correct oversights or make necessary corrections, the Agency will ensure the loan meets regulatory requirements prior to issuing the Loan Note Guarantee.



- The Loan Note Guarantee is two pages.
- The top of page 1 displays information such as borrower name, approved lender, USDA
 case number, randomly generated Borrower ID, and principal amount of the loan that is
 guaranteed.
- Page 1 also includes the terms of the Loan Note Guarantee coverage in the event of a loss claim along with the eligible loan purposes that may be reimbursed under the guarantee.



- Page 2 will include the Borrower's Name and Borrower ID at the top.
- This page also includes indemnification language and annual fee percentage.
- Other items listed include information on protective advances, termination of the guarantee, and the email address for the National Financial and Accounting Operations Center where certain actions may be required to be reported.

Duplicate Loan Note Guarantee HB-1-3555, Chapter 16.9 Once the agency has prepared, issued Lender Display Documents and uploaded the Loan Note Guarantee to the agency's imaging LINC Home | FSALINC Home | RBS LINC Home | RHS LINC Home | RUS LINC Home | Lender Profile | Help repository, the lender may view and Borrower Information display the Loan Note Guarantee. Borrower ID/Name Address Click on the Loan Note It may take several minutes for individually indexed documents to process and be available for display. It may take one to two hours for batch file documents to process and be available for display. Please be patient! Guarantee hyperlink to display, print and/or save the document. Click Document Description hyperlink to display the document you wish to view. **Document Description** Select Cancel to return to the RH HUD-1 Settlement Statement HUD-1 Settlement Statement **Lender Administration List** page. 10001

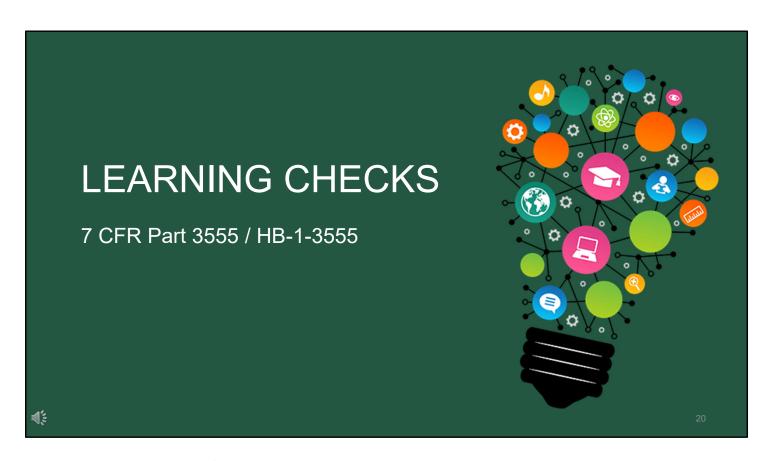
• In cases where a lender may need to request a duplicate Loan Note Guarantee, lenders may retrieve a reissued Loan Note Guarantee from the automated Lender Loan Closing system.

Cancel 👍

- A lender's request for a certified copy, scanned copy or duplicate original Form RD 3555-17/E will be honored.
- Many investors accept a certified copy or a duplicate original Form RD 3555-17.

- What if a lender incurs a loss on a SFHG loan and needs to collect on the guarantee, how is the loss claim payment calculated?
- HB-1-3555, Chapter 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 this coverage really look like?

1-3555.



The best way to learn information is to test your knowledge!

Training Topic



• Include a statement/question

TRUE/FALSE or other answer options will be displayed



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The following question slides will list:

- The topic,
- A question or scenario, and
- potential responses

Training Topic

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

X. Correct Response

· Additional guidance for clarification provided



The answer slides 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!

Loan Note Guarantee

• Loan Note Guarantees may not be issued beyond 60 days of the loan closing.

A. TRUE B. FALSE

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Read the question on the slide and select a response.

Loan Note Guarantee

3555.107(i)(1), HB 16.3

B. FALSE

The lender must provide evidence the loan was properly closed and remit the upfront loan guarantee fee and the USDA technology fee within 30 days of closing the loan.



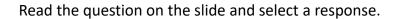
B. False

- The lender will need to provide the following within 30 days of closing the loan to request the LNG:
 - Upfront loan guarantee fee
 - USDA technology Fee
 - All necessary forms and documentation required as noted in HB-1-3555, Chapter
 16

Loan Note Guarantee

• 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



Loan Note Guarantee

3555.108(d)(1), HB 4.9

B. 60 MONTHS

- 60 months from loan closing applies for errors regarding:
 - Misrepresentation/omissions
 - Improper analysis of income/employment
 - Failure to correct property deficiencies
 - · Ineligible appraiser

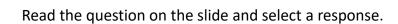
B. 60 Months

• USDA may pursue indemnification from an originating lender up to 60 months, or 5 years, post closing due to misrepresentation of material loan data.

Loan Note Guarantee

 A Note that provides for the payment of interest on interest may be guaranteed.

A. TRUE B. FALSE



Loan Note Guarantee

3555.108(b), HB 4.9

B. FALSE

 A note that provides for the payment of interest on interest 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.



B. False

• A note that provides for the payment of interest on interest shall not be guaranteed. If the note that the LNG is attached, relates to or provides for the payment of interest on interest, then the LNG is void.

QUESTION Loan Note Guarantee The _____ will pay the annual fee to the Agency. A. Borrower B. Servicer C. Loan Originator

Read the question on the slide and select a response.

Loan Note Guarantee

3555.107(h), HB 16.5

B. Servicer

• The servicer will electronically pay the Agency the annual fee on all purchase and refinance transactions which may be passed to the borrower.

B. Servicer

• The servicer will electronically pay the Agency the annual fee, however, this fee may be passed to the borrower.

Loan Note Guarantee

• The technology fee may be passed to the borrower and included in the loan amount as an authorized loan purpose.

A. TRUE B. FALSE



Read the question on the slide and select a response.

Loan Note Guarantee

HB 16.6

A. TRUE

- Lenders will pay the Agency a technology fee, which may be passed to the borrower as an authorized loan purpose, when the request for loan guarantee is submitted via GUS.
- The fee can be included in the loan amount subject to the maximum loan-to-value thresholds.



A. True

- Although lenders pay the Agency the technology fee, this fee may be passed to the borrower as an authorized loan purpose.
- The fee can be included in the loan amount, subject to the maximum loan-to-value thresholds.

Loan Note Guarantee

- The maximum that a servicer may collect from the Agency on a loss is the greater of:
 - o 90% of the original principal amount actually advanced to the borrower; or
 - 100% of any loss equal to or less than 35% of the original principal advanced, plus 85% of any remaining loss up to 65% of the principal advanced.

A. TRUE B. FALSE

Read the question on the slide and select a response.

Loan Note Guarantee

HB 20.2 A

B. FALSE

- The maximum that a servicer may collect from the Agency on a loss is the lesser of:
 - o 90% of the original principal amount actually advanced to the borrower; or
 - o 100% of any loss equal to or less than 35% of the original principal advanced, plus 85% of any remaining loss up to 65% of the principal advanced.

B. FALSE

• The maximum that a servicer may collect from the Agency on a loss is the <u>lesser of</u> the two options, not the greater of the two.

Loan Note Guarantee

Method 2 Loss Calculation

- OPA = \$150,000
- 35% of OPA = \$52,500
- 65% of OPA = \$97,500
- 85% of 65% of OPA = \$82,875
- What is the correct payment amount under Method 2?
- A. \$82,875
- B. \$135,375
- C. \$135,000

Read the question on the slide and select a response.

Loan Note Guarantee

HB 20.2 A

B. \$135,375

- OPA = \$150,000
- 35% of OPA (150,000) = \$52,500
- 65% of OPA (150,000) = \$97,500
- 85% of 65% of OPA (97,500) = \$82,875
- Payment = 52,500 + 82,875 = \$135,375

B. \$135,375

- The correct calculation for the second loss calculation method is 52,500 (which
 is 35% of the OPA) plus 82,875 (which is 85% of 65% of the OPA). The total is
 \$135,375.
- As a note, in this scenario, the maximum that the servicer would actually collect would be \$135,000 which is 90% of the OPA because it is the lesser of the 2 calculations.

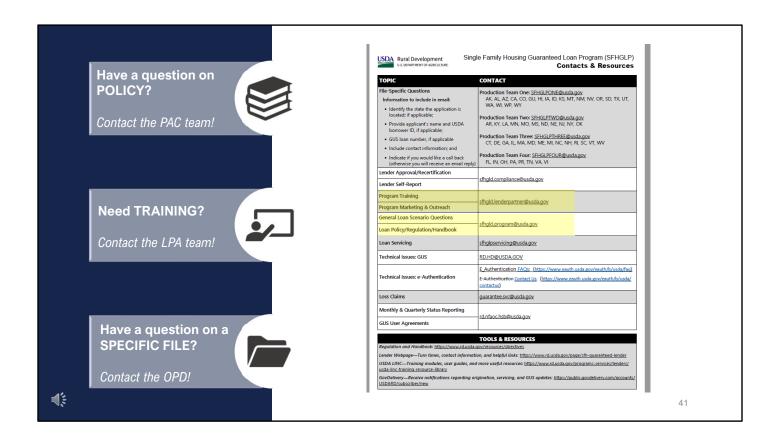


Way to go! You have completed the learning checks!



Rural Development has developed numerous tools and resources to assist lenders with originating, processing, and servicing guaranteed loans.

- This training module has provided you with an overview of the key requirements of the Loan Note Guarantee.
- Complete program requirements and guidance on this topic can be found in 7 CFR Part 3555, Subpart C, Section 3555.108 and Chapters 16 and 20 of HB-1-3555.
- Be sure to bookmark these references, save yourself valuable time by using Cntrl-F to quickly search and find answers, and always ensure you are referencing the most current publications.
- The "Program Overview Training" module will assist you in learning how to navigate through all the resources and tools Rural Development has created to assist you.



- Users should first look for answers to their questions in the regulation and handbook, but if you still have a question after reviewing your resources, we're here to help.
- All policy and regulation questions regarding the topic we just covered should be sent to our Policy, Analysis, and Communications Branch and
- If you would like to request additional program training, contact our Lender and Partner Activities Branch.

The Single Family Housing Guaranteed Lender webpage was specifically designed for our lending partners and includes information such as:

- Current turn times on new loan applications
- · Contact information, and
- Links to program resources such as our 3555 Handbook and the <u>USDA LINC</u> website.
- Also, don't forget to sign up for our GovDelivery email notifications. Rural Development sends out origination, 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 and America's rural homebuyers!



This will conclude the training module. Thank you and have a great day!