Loan Terms

Single Family Housing Guaranteed Loan Program
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.
Guaranteed Loan Program Regulation

7 CFR Part 3555

- The regulation is the rule!
- 8 Subparts: A – H
- Appendix 1
7 CFR Part 3555

7 CFR Part 3555

Handbooks

HB-1-3555 SFH Guaranteed Loan Program Technical Handbook
HB-1-3555 Direct Single Family Housing Loans and Grants - Field Office Handbook
HB-2-3555 Direct Single Family Housing Loans and Grants - Centralized Servicing Center Handbook
HB-1-3556 SFH Guaranteed Loan Program Technical Handbook
HB-1-3556 MFH Loan Origination Handbook
HB-2-3556 MFH Asset Management Handbook
HB-3-3556 MFH Project Servicing Handbook
HB-1-3563 Guaranteed Rural Rental Housing Program Origination and Servicing Handbook
Application Information Systems Support Handbook
HB-1-3550 Direct Single Family Housing Loans and Grants - Field Office Handbook

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Chapter 20 - Loss Claims - Collecting on the Guarantee

Acronyms

Glossary

Appendix 1 - 7 CFR part 3555
Appendix 2 - Forms and Instructions
Appendix 3 - Review and Appeals
Appendix 4 - Agency and Employee Addresses
Appendix 5 - Income Limits
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Appendix 8 - EDI Documentation
Appendix 9 - Penalties
Appendix 10 - Unnumbered Letter and State Supplements
7 CFR Part 3555

3555.104 Loan terms.
(a) Interest rate.
(b) Repayment period.
(c) Repayment schedule.
(d) Negative amortization.
(a) **Interest rate.** The loan must be written at an interest rate that:

(1) Is fixed over the term of the loan;

(2) Shall be negotiated between the lender and borrower to allow the borrower to obtain the best available rate available;

(3) Does not exceed the Fannie Mae rate for 30 year fixed rate conventional loans, as authorized in Exhibit B of subpart A of part 1810 of this Chapter (RD Instruction 440.1, available in any Rural Development office) or online at: [http://www.rd.usda.gov/publications/regulations-guidelines](http://www.rd.usda.gov/publications/regulations-guidelines) and;

(4) If the interest rate increases between the time of the issuance of the conditional commitment and the loan closing, the lender will note the change in the loan closing package and submit appropriate updated documentation and underwriting analysis to confirm that the applicant is still eligible.
7 CFR Part 3555: 3555.104

(b) **Repayment period.** The term of the loan may not exceed 30 years. Adjustable rate mortgages, balloon term mortgages or mortgages requiring prepayment penalties are ineligible terms.

(c) **Repayment schedule.** Amortized payments will be due and payable monthly.

(d) **Negative amortization.** The loan note must not provide for interest on interest.
Guaranteed Loan Program Technical Handbook
HB-1-3555

- Provides guidance to support the regulation
- HB is not the rule
- 20 Chapters
CHAPTER 7: LOAN TERMS AND CONDITIONS

7.1 INTRODUCTION
7.2 MAXIMUM LOAN AMOUNT

7.3 LOAN TERMS
   A. Repayment Period
   B. Interest Rate
   C. Terms Unacceptable for a Guarantee
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;
- Any earned income tax credit;
- Adoption assistance in excess of any amount determined pursuant to HUD's definition of annual income at 24 CFR 5.609(c).
7 CFR PART 3555 / HB-1-3555

LEARNING CHECKS
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
Loan terms

A 15 year term is eligible for a USDA guaranteed loan.

A. TRUE       B. FALSE
Loan terms

ANSWER: 3555.104(a)(1) and HB 7.3 A

B. FALSE

- The loan term must be 30 years
- Loan terms less than 30 years are unauthorized
- No prepayment penalties apply
Loan terms

USDA publishes a daily interest rate for guaranteed loans.

A. TRUE    B. FALSE
Loan terms

ANSWER: 3555.104(a)(2) and HB 7.3 B

B. FALSE

• Rate is negotiated between lender and applicant

Interest rates may not exceed:
• Fannie Mae 90 day delivery for fixed rate mortgage
• Plus 100 basis points
• Rounded up to the nearest quarter of one percent
Loan terms: Interest Rate Resource

https://www.fanniemae.com/singlefamily/historical-daily-required-net-yields
## Loan terms: Interest Rate Resource Example

**MANDATORY DELIVERY COMMITMENT — 30-YEAR FIXED RATE A / A**

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Loan terms

Maximum Interest Rate Calculation Example

• Interest Rate Locked: April 26th
• 90 day Fannie Mae rate on April 26th: 3.29
• 3.29 + 100 basis points = 4.29
• Round up to nearest ¼ of 1% = 4.50%

An interest rate locked on April 26th can not exceed 4.50%
Loan terms

• Form RD 3555-21 states interest rate is floating
• 5% is entered for the interest rate
• The maximum interest rate for the date USDA reviews the loan is 4.25%
• The loan is ineligible until the lender corrects the interest rate

A. TRUE    B. FALSE
Loan terms

ANSWER: 3555.104(a)(3) and HB 7.3 B

B. FALSE

• It is the lender’s responsibility to ensure the interest rate is eligible at the time of lock/loan closing
• Loans closed at unauthorized interest rates will be ineligible for a loan note guarantee without correction
Loan terms

• Interest rate locked on April 5\textsuperscript{th}
• Fannie Mae 90 day rate: 3.15179\
• What is the maximum interest rate the lender may offer the applicant

A. 4.25%   B. 4.00%
Loan terms

ANSWER: 3555.104(a)(3) and HB 7.3 B

A. 4.25%

- 3.15 + 100 basis points = 4.15%
- Round up to nearest quarter of one percent = 4.25%
Loan terms

Lenders must charge the maximum allowable interest rate.

A. TRUE    B. FALSE
Loan terms

ANSWER: 3555.104(a)(3) and HB 7.3 B

B. FALSE

• Lenders negotiate the interest rate with applicants
• The maximum rate must not be exceeded at the time of rate lock
Loan terms

Which loan term(s) is eligible:

A. Fixed interest rate
B. Adjustable interest rate
C. Negative amortization
D. Balloon mortgage
E. Prepayment penalties
Loan terms

ANSWER: 3555.104(b),(c),(d) and HB 7.3 C

A. Fixed interest rate

• Adjustable interest rate, negative amortization, balloon mortgages and prepayment penalties are ineligible loan terms
Regulations

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