Welcome to Loan Terms, 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.
The regulation Table of Contents provides a quick view of the individual topics included under this Section. Loan terms is located in Subpart C in 3555.104.
Section 3555.104 includes specific guidance regarding the note interest rate including that rates must be fixed and they are negotiated between the lender and the borrower. There is a maximum interest rate that is eligible to be locked based on the Fannie Mae 30 year fixed rate as outlined in RD Instruction 440.1. Additional guidance to determine the maximum allowable interest rate will be explained in this training. If USDA issues a conditional commitment to the approved lender and the interest rate increases from the rate authorized prior to loan closing, the lender must notify USDA and receive an updated commitment.
The repayment period of a guaranteed loan may not exceed 30 years. No adjustable rate, balloon, or prepayment penalties are allowed. All payments will be due and payable monthly. A guaranteed loan may also not provide for negative amortization.
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 Terms is located in Chapter 7.
This screen shot displays the Table of Contents of Chapter 7. This helps the user to locate specific topics more quickly.
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!
Question Slide

“Topic”

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

TRUE/FALSE or other answer options will be displayed

Each question slide will list:
• the topic
• A question or scenario, and
• potential responses.
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!
Loan terms
A 15 year term is eligible for a USDA guaranteed loan.

A. TRUE  B. FALSE

Read the question on the slide and select a response.
False.
The loan term must be 30 years. The regulation does not authorize shorter terms. Prepayment penalties are not allowed on guaranteed loans.
Loan terms

USDA publishes a daily interest rate for guaranteed loans.

A. TRUE  B. FALSE

Read the question on the slide and select a response.
False.
The interest rate is negotiated between the lender and the applicant. Interest rates may not exceed the Fannie Mae 90 day delivery for fixed rate mortgage, plus 100 basis points, then rounded up to the nearest quarter of one percent.
You can locate Fannie Mae interest rates (present and historical) online at the link provided on the slide. Under the “30 year Fixed Rate Mortgages Actual/Actual remittance”, select the appropriate month that is applicable to the interest rate you wish to calculate. Typically this will be the “Current Month.” “Previous 12 Months” is available to assist in reviewing interest rates from previous month loans or for loan review purposes.
When the “Current Month” option is selected the interest rates will be displayed for each date. In this example the date of April 26th is highlighted. The 90 day rate on this date is 3.29.
To calculate the maximum interest rate, let’s review this example:

If an interest rate is locked on April 26th.

The Fannie Mae 90 day delivery for a 30 year fixed rate actual/actual mortgage on April 26th is 3.29.

3.29 plus 100 basis points equals 4.29.

When you round this up to the nearest quarter of one percent it yields 4.50%.

Therefore an interest rate locked on April 26th in this example cannot 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
False. USDA can issue the conditional commitment (Form RD 3555-18/18E) with this rate listed, however the lender must abide within all conditions of the commitment. One of these conditions is that the interest rate is eligible on the date it is locked. Loans that are closed at ineligible interest rates must be corrected (release and resubmission in GUS or loan modification) before a loan note guarantee may be issued.
Read the question on the slide and select a response.

Loan terms

• Interest rate locked on April 5th
• 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%

Response A.

3.15% plus 100 basis points equals 4.15%.
4.15% rounded up to the nearest one quarter of one percent equals 4.25%.
Loan terms

Lenders must charge the maximum allowable interest rate.

A. TRUE     B. FALSE

Read the question on the slide and select a response.
False.
While a maximum interest rate applies, this does not mean that it must be the selected interest rate. Lenders negotiate the interest rate with their applicant(s). The maximum allowable interest rate cannot be exceeded on the date the rate is locked.
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

Read the question on the slide and select a response.
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

Response A.
Out of all the options presented only the fixed interest rate is an eligible term. Adjustable rate mortgages, loans that allow for negative amortization, balloon mortgages, and prepayment penalties are ineligible under the guaranteed loan program.
Way to go! You have completed the learning checks!
Don’t forget the Regulations and Guidelines website is a tremendous trove 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!