

UNNUMBERED LETTERS ISSUED FOR THE JANUARY OF 2015

Dated	Subject	Distribution
01-15-15	Annual Interest Rate Changes	S/D
01-15-15	Interest Rate Changes for Housing Programs and Credit Sales (Nonprogram)	S/D
01-16-15	Multi-Family Housing Programs Guidance for Rural Development to Complete Area Market Rent Studies for the Rural Development Voucher Program	S/D
01-16-15	Management of Loan Payoffs for the Multi-Family Direct Loan Portfolio	S/D
01-21-15	Single Family Housing Guaranteed Loan Program Rural Refinance Pilot	S/D

January 15, 2015

TO: State Directors

ATTN: Area Directors
Area Specialist
Rural Housing Program Directors

FROM: Tony Hernandez /s/ *Tony Hernandez*
Administrator
Housing and Community Facilities Programs

SUBJECT: Annual Interest Rate Changes

The following interest rate is in effect for loans approved after the beginning of business January 1, 2014

Loan Type	Existing Rate	New Rate
Farm Labor Housing- State Director Exception	5.250%	5.000%

Also, the benchmark used for FY 2014 Interest rate for repayment of unauthorized assistance when the borrower was at fault was announced by Treasury to be 3.460%.

Please notify appropriate personnel of this rate.

EXPIRATION DATE:
December 31, 2015

FILING INSTRUCTIONS:
Administrative/Other Programs

January 15, 2015

TO: State Directors

ATTN: Area Directors
Area Specialist
Rural Housing Program Directors

FROM: Tony Hernandez /s/ *Tony Hernandez*
Administrator
Housing and Community Facilities Programs

SUBJECT: Interest Rate Changes for Housing Programs
and Credit Sales (Nonprogram)

The following interest rates, effective February 1, 2015, are reported as follows:

<u>Loan Type</u>	<u>Existing Rate</u>	<u>New Rate</u>
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ALL LOAN TYPES

Treasury Judgment Rate	0.140%	0.270%
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The new rate shown above is as of the week ending December 26, 2014. The actual judgment rate that will be used will be the rate for the calendar week preceding the date the defendant becomes liable for interest. This rate may be found by going to the Federal Reserve website for the weekly average 1-year Constant Maturity Treasury Yield *

RURAL HOUSING LOANS

Rural Housing (RH) 502 Very-Low or Low	3.375	3.250
Single Family Housing (SFH) Nonprogram	3.875	3.750
Rural Housing Site (RH-524), Non-Self-Help	3.375	3.250
Rural Rental Housing and Rural Cooperative Housing	3.375	3.250

EXPIRATION DATE:
February 28, 2015

FILING INSTRUCTIONS:
Administrative/Other Programs

* (http://www.federalreserve.gov/releases/h15/data/Weekly_Friday_/H15_TCMNOM_Y1.txt).

January 16, 2015

TO: State Directors
Rural Development

ATTN: Multi-Family Housing Directors
Regional Program Support Managers
Rural Development Appraisers

FROM: Tony Hernandez /s/ *Tony Hernandez*
Administrator
Housing and Community Facilities Programs

SUBJECT: Multi-Family Housing Programs
Guidance for Rural Development to Complete Area Market Rent
Studies for the Rural Development Voucher Program

Purpose

The purpose of this Unnumbered Letter (UL) is to provide guidance on the statutory and regulatory requirements to estimate a fair market rental rate for the sole use in estimating the amount to assist the tenants within the Rural Development Voucher Program (RDVP). It provides additional guidance to comply with Rural Development (RD) regulations and for use in rural areas where it is not practicable to use guidance previously issued to determine the comparable market rent for a Section 515 apartment unit. The Area Market Rent Study (AMRS) does not establish a rental rate for a specific property or unit and is not intended to be used as such by the owner of the property that is subject to prepayment or foreclosure and for which an AMRS is being conducted.

Introduction

In fiscal year 2006, the U.S. Department of Agriculture established a demonstration program, the RDVP, as authorized under Section 542 of the Housing Act of 1949, as amended. The purpose in establishing the demonstration program was to assist tenants in their transition into the conventional rental market after owners of Section 515 RD-financed multi-family properties have been discharged of their loan either through prepayment or foreclosure action, prior to the loan's maturity date. Congress' intent was to ease the potential burden on the tenants if rental subsidies ceased to exist and rents were raised in their resident property. The RDVP was intended to supplement the tenant's payment toward rent. To calculate the amount of the

EXPIRATION DATE:
January 31, 2016

FILING INSTRUCTIONS:
Housing Programs

voucher to offer the tenants, each Section 515 property that is subject to prepayment or foreclosure must have an AMRS performed of the housing market-wide estimates of rents that will provide opportunities to rent standard quality housing throughout the geographic area in which rental housing units are in competition.

Below is guidance for the RD Appraiser Staff to follow in providing the AMRS to RD servicing officials.

Implementation Requirements

Section 542 of the Housing Act of 1949, as amended states “the Secretary may provide assistance using a payment standard based on the fair market rental rate established by the Secretary for the area.” Within the Rural Housing Service (RHS), RDVP Notice of Funding Availability, it states that RHS should, “to the maximum extent practicable, administer such vouchers with current regulations and administrative guidance applicable to section 8 housing vouchers.” These requirements are generally based on the housing choice voucher program regulations of the of the U.S. Department of Housing and Urban Development (HUD) set forth at 24 CFR part 982 and for the methodology in estimating Fair Market Rents at 24 CFR part 888.

Implementation Procedures

To implement procedures that are consistent with HUD regulations that are practicable for use in the rural areas supported by RD, the following changes need to be utilized. These changes are necessary as the quantity and quality of rental data in rural areas are not available to the extent found in urban areas.

RD will use the following definition for RD AMRs;

AMRs. The rent, as established by RD for units of varying sizes (by number of bedrooms), that must be paid in the housing market area to rent privately owned, existing, decent, safe and sanitary rental housing of modest (non-luxury) nature with suitable amenities.

HUD regulations 24 CFR part 888 sets the basis for estimating market rents and describes data sources that are acceptable along with inclusion of any other valid data source.

RD will use the following basis and methodology;

Basis for setting AMRs, AMRs are housing market-wide estimates of rents that provide opportunities to rent standard quality housing throughout the geographic area in which rental housing units are in competition. Adjustments are made to exclude public housing units, newly built units and substandard units.

RD will use the following changes to methodology as described in 24 CFR part 888;

888.113(a) – RD will use a weighted average instead of the 40th or 50th percentile rent as described by HUD, and can consider all rental units of standard quality, not just those that are occupied by recent movers.

888.113(d) – HUDs Fair Market Rent (FMR) areas as described by HUD are typically urban areas. RD staff will determine what geographic area will be considered, including neighboring communities if necessary, to arrive at an AMR that is reasonably supported considering the rural nature of RD financed properties.

888.113(e) - RD may use the data sources as described by HUD, or any other source that they determine applicable.

The following information will be provided by the Servicing Official when requesting the AMRS:

- The address to be used to determine the geographic area of the AMRS
- Unit sizes (by number of bedrooms) requested for AMRS

Any additional information required for the AMRS will be provided with the assistance of the RD staff located in the area that would service the geographic area requested.

The completed AMRS should contain:

- Address that was used to determine the geographic area of the AMRS
- Description of the geographic area that is used in the AMRS
- The AMR for each unit size (by number of bedrooms) requested
- The date of the AMRS
- Name of the person preparing the AMRS

RD weighted average method

As stated in the methodology above, RD will use the weighted average of the rental units to estimate the AMR in the geographic area that applies. The following method will be used;

Data used for example;

- 20 - 2 bedroom apartments that rent for \$450 per month (\$450 x 20 = \$9,000)
- 10 - 2 bedroom apartments that rent for \$425 per month (\$425 x 10 = \$4,250)
- 2 - 2 bedroom apartments that rent for \$400 per month(\$400 x 2 = \$800)

$\$9,000 + \$4,250 + \$800 = \$14,050 / 32 \text{ units} = \439.06 , rounded to the nearest dollar renders an estimated FMR of \$439 for a 2 bedroom apartment.

Requesting an ARMS

Requests by Servicing Officials to have Agency Appraisers perform an AMRS will be processed within the RD Regionalization Hub. The Standard Operating Procedure for the AMRS process can also be found within the Appraiser Service Request tab via the link below:

https://ems-team.usda.gov/sites/RD_rHUB/pss/assign/default.aspx

This guidance in this Unnumbered Letter supersedes all previous issuances. The RDVP Guidebook will be revised to conform to the AMRS guidance. For additional guidance concerning the AMRS procedures described above, please contact Thomas Ale, National Office Appraiser at (202) 720-1620. For RDVP assistance, please contact Joan Atkinson, Finance and Loan Analyst at (813) 752-1474, extension 103.

January 16, 2015

TO: State Directors
Rural Development

ATTN: Program Directors and Coordinators
Multi-Family Housing

FROM: Tony Hernandez /s/ *Tony Hernandez*
Administrator
Housing and Community Facilities Programs

SUBJECT: Management of Loan Payoffs for the Multi-Family Direct Loan Portfolio

This Unnumbered Letter (UL) clarifies the management of loan payoffs, and replaces in part, the UL issued May 14, 2012, titled “Prepayment Clarifications and Related Issues”. Borrowers seeking to *prepay* their loan(s) are governed by 7 CFR §3560.653(a). Issues related to prepayment incentives, transfers, completion of the Prepayment Incentive Calculation Worksheet, and the Preservation Tracking and Concurrence system, will be addressed in a separate issuance.

This UL will address Section 514 and Section 515 loans and describes actions to be taken if the loan is in a payoff status due to one or more of the situations identified below. The National Office will periodically post to the Multi-Family Information System (MFIS) SharePoint site a link to the “List of MFH Projects – Remaining Terms”. This will comprise a list of those properties identified with loans scheduled to payoff ahead of their regular payment/amortization schedule and/or those that will be reaching their natural maturity date. Upon issuance of this UL, it is advised that Agency staff review this list and identify any properties that may have 25 or fewer months remaining before the loan is expected to be paid in full. Servicing Officials should review this list annually and take appropriate action with regard to such borrowers. The list can be found at: <https://rd.sc.egov.usda.gov/teamrd/hcftp/mfh/MultiHousing%20Family%20Information/Forms/AllItems.aspx>. State Office and Field Office staff may also review the RC 545 Report, “Analysis of Delinquent Loan Receivable Accounts All Projects AMAS”, to determine if the unpaid balance/installment is fewer than 25 installments.

Loan status may consist of A) loans in early payoff status due to: the application of “extra payments”, as defined; or the application of regular payments, resulting in “early payoff” prior to the loan maturity date as identified in the Borrower’s Promissory Note; or B) final payoff of loans that have reached their natural maturity date.

EXPIRATION DATE:
January 31, 2016

FILING INSTRUCTION:
Housing Programs

A. Early Payoff Status

I. Extra payments.

Offices may encounter instances in which a borrower's account reflects a final payment on the loan due prior to the maturity date as a result of "extra payments" being applied. Circumstances which may have created this situation include:

- Proceeds from partial sale of property secured by Rural Development per 7 CFR §3560.54(a)(11)(ii).
- Remission to the Agency of any fees collected in excess of operating expenses to the loan account as an extra loan payment under 7 CFR §3560.53(e)(2).
- Application of surplus funds to reduce the debt service on the borrower's loans per 7 CFR §3560.306 (d)(2).

II. Borrowers Paid "Ahead of Schedule".

There are instances in which annual installment borrowers submit their payments on a monthly payment schedule (seen typically in Off-Farm Labor Housing accounts), and/or other instances where application of a Borrower's regular monthly installment results in a "paid ahead" schedule. Both may result in "early payoff" of the debt.

B. Final Payoff Status

I. Loan/Note Naturally Maturing.

These are accounts which have reached their natural maturity based on the maturity date in the Promissory Note and the loan's amortization schedule.

For those Borrowers whose loans have reached early payoff status, prior guidance remains valid that Servicing Officials should re-amortize the remaining principal balance only up to the date of maturity in the Promissory Note. Borrowers with 25 or fewer months remaining until the loan maturity date should be contacted and provided with RD Form 3560-15, "*Re-amortization Request*". In no case should the Agency accept a final payment from Borrowers in this status, if it would result in a prepayment of the mortgage prior to the maturity date in the Note. Servicing Officials should contact the National Office for further guidance on handling these loan accounts.

Borrowers whose loans are in final payoff status and are expected to mature on the maturity date stated in the Promissory Note will be considered to have met their obligation and the loan(s) will be retired. Upon retirement, interest credit and/or Rental Assistance (RA) subsidies will end. Borrowers should also be reminded that a final loan payment must include repayment of all outstanding obligations to the Agency.

Servicing Officials will provide the letter in Attachment A to Borrowers identified with 25 or fewer months remaining until the maturity date, whether the loan is identified as in "early" or "final" payoff status. This letter advises Borrowers of the impact on the project and requires tenant notification of potential implications of mortgage payoff.

If you have any questions or comments, please contact Laura L. Horn at (386) 328-5051, extension 100, or via e-mail at laura.horn@wdc.usda.gov.

Attachment

RE: Project>ID>Loan #

Dear *[insert name of borrower]*:

We are writing to notify you that a review of your loan account(s) has been completed.

Your loan(s) is evidenced by a Promissory Note and/or Assumption Agreement received by you through the Rural Housing Service, USDA. One of the following situations applies to your loan(s):

(___) Your loan is expected to 'payoff' prior to the maturity date in the Promissory Note and/or Assumption Agreement within 24 months, but not less than 12 months.

Or

(___) Your loan is expected to reach maturity on _____(Date)_____ as identified in the Promissory Note and/or Assumption Agreement(s).

If your loan is expected to reach maturity prior to the date in the Promissory Note, whether due to extra principal payments applied to the account, the application of regular monthly installments on an annual installment note, or installments which have resulted in an "Ahead of Schedule" status, the Agency will allow the borrower, if requested, to re-amortize the remaining balance on the account to the date of maturity in the Promissory Note. This action will eliminate an early payoff of the loan. Servicing Officials will be in contact with you to process your re-amortization request.

You must notify the tenants in the subject property that the Rural Development (RD) mortgage will be fully paid on a-date certain. Such notification must occur:

- 1) Immediately if the date of maturity is less than 12 months from this notice; **or**
- 2) No later than 12 months prior to the date of maturity.

The notice to tenants must include:

- Expected date of mortgage maturity;
- Information that the end of the RD mortgage will result in the end of Rental Assistance (RA) subsidy.
- Information regarding any potential rent increase that may be instituted after the loan is paid off.
- Tenants receiving RA should be informed that they may be able to transfer their RA to another RD property to which they move. Tenants have up to 4 months after mortgage payoff to use this RA.
- Location and contact information about other RD properties in the county or locality. Your RD Servicing Office can provide you with this information.
- Information about other housing subsidies that may be available through Federal, State or local resources, to include contact information for such agencies.

RD is available to assist you in explaining mortgage payoff implications to your tenants, or providing information to help them make informed decisions. Our office address and telephone number is: *[insert address and telephone number]*

Sincerely,

[Signature and title of Official]

January 21, 2015

TO: State Directors
Rural Development

ATTENTION: Rural Housing Program Directors
Guaranteed Rural Housing Specialists
Area Directors and Specialists

FROM: Tony Hernandez /s/ *Tony Hernandez*
Administrator
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program
Rural Refinance Pilot

PURPOSE/INTENDED OUTCOME:

The purpose of this unnumbered letter (UL) is to provide guidance for the Rural Refinance Pilot loan. The Rural Refinance Pilot is designed to assist existing Section 502 direct or guaranteed loan borrowers to refinance their homes with greater speed and ease. The pilot program is available to borrowers in eligible states where steep home price declines, unemployment, and persistent poverty rates can make refinancing a current mortgage into more affordable terms difficult or impossible. Borrowers in these states can now refinance their homes to secure lower interest rates and lower monthly payments without obtaining a new credit report, new appraisal (except to calculate subsidy recapture for refinancing a direct loan with a guaranteed loan), HUD Handbook minimum property determinations, or property inspections.

EXPIRATION DATE:
January 31, 2016

FILING INSTRUCTIONS:
Housing Programs

Section 502 Guaranteed Loan Program Rural Refinance Pilot Guidelines:

Brief Pilot Description: The Rural Refinance Pilot is available to eligible borrowers who qualify to refinance their current USDA mortgage loans. Under the Rural Refinance Pilot program, a lender does not need to submit a new credit report, new appraisal (except to calculate subsidy recapture for refinancing a direct loan with a guaranteed loan), HUD Handbook minimum property determinations, or any additional property inspections. An appraisal may be required for direct loans refinanced into a new guaranteed loan for subsidy recapture calculation purposes.

Eligible States: The following states are eligible for the pilot: Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Georgia, Idaho, Illinois, Indiana, Kansas, Kentucky, Michigan, Mississippi, Missouri, Montana, Nevada, New Jersey, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, Oregon, Puerto Rico, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Washington, West Virginia, and Wisconsin.

States not mentioned in this UL are not eligible for the pilot at this time.

Eligible Borrowers: Current Section 502 direct or guaranteed loan borrowers must:

1. Meet current household income eligibility requirements;
2. Reside in an eligible rural area or an area that was eligible at the time of the original loan closing; and,
3. Have made timely mortgage payments for the 12-month period prior to the refinance.

Overview of Rural Refinance Pilot Guidelines:

1. The existing loan must be a Section 502 direct or guaranteed loan.
2. The new interest rate must be a fixed rate, and a minimum of 100 basis points below the current interest rate. The interest rate must not exceed that described in 7 CFR Part 3555, Section 3555.104(a).
3. The new term of the refinance loan must be 30 years.
4. Borrowers may be added but not removed (unless deceased) from the current loan.
5. A Rural Refinance Pilot loan may include the principal balance of the loan plus a portion or the full amount of the applicable upfront guarantee fee, accrued interest and eligible loan closing costs. No cash out is permitted to the borrower. Subsidy recapture due for direct loan borrowers is not eligible to be part of the refinance loan. Subsidy recapture must be paid in full by the borrower or subordinated.
6. The applicable annual fee applies.
7. The home must remain the borrower's primary residence.
8. A new appraisal, new credit report, HUD Handbook determination and additional property inspections are not required.

9. Direct loan borrowers may require a new appraisal to calculate subsidy recapture that may be due, but it will not be used for loan-to-value purposes. The cost of this appraisal is an eligible loan closing cost. If the direct loan borrower has never received subsidy and the statement of loan balance from the Customer Servicing Center (CSC) confirms that subsidy was not utilized at any time for the loan, a new appraisal will not be required.
10. Debt-to-income ratio calculations are not required; therefore, debt ratio waiver requests will not be necessary.
11. Rural Refinance Pilot loans must be manually underwritten. They cannot be processed through the Guaranteed Underwriting System (GUS).
12. Customary and reasonable closing costs and other fees may be collected from the borrower by the lender. Such charges may not exceed the cost paid by the lender or charged to the lender by the service provider.
13. Origination fees and charges not exceeding those published in the Federal Register by the Consumer Protection Finance Board, found in 12 CFR 1026.43(e)(3).
14. All the following documentation is required:
 - a. Form RD 3555-21 “Request for Single Family Housing Loan Guarantee.”
 - b. Full income verifications/documentation for all adult household members.
 - c. Uniform Residential Loan Application.
 - d. Evidence of qualified alien status, if applicable.
 - e. FEMA Form 086-0-32. Appropriate flood insurance must be obtained if the property is in a flood zone at the time of the new loan closing, even if the area was not in a flood zone at the time of the original loan closing. A flood elevation survey is not required for this pilot.
 - f. Evidence of previous 12 month mortgage payment history. The lender must secure evidence to document the borrower(s) has paid the loan on time for the previous 12 months. The lender may utilize a Verification of Mortgage obtained from or provided directly by the loan servicer that lists the payment history for each of the previous 12 months. As an alternative, the lender may submit a credit report which reflects a satisfactory mortgage payment history over the past 12 months. If the lender submits a credit report to Rural Development as proof of payment history, only the payment history of the current mortgage will be considered. Credit waivers or explanations for adverse credit that may be present on the report are not required.
15. All additional requirements of 7 CFR Part 3555 and applicable Administrative Notices continue to apply.

Instructions to obtain a “Statement of Loan Balance” or payoff/subsidy recapture due for a Section 502 direct loan borrower:

Lenders may determine an applicant has a direct loan when the credit report reflects the mortgage loan creditor as “USDA,” or the applicant informs the lender they applied and received their mortgage loan through a USDA Service Center.

SFH direct loans are serviced by the CSC located in St. Louis, MO. When lenders have a direct loan applicant they may make a payoff request to and obtain a “Statement of Loan Balance” letter from the CSC.

Steps for obtaining a “Statement of Loan Balance” letter:

1. Submit a request on letterhead suitable for fax transmission which includes the borrower’s name, account number, address, and the date for which the payoff should be valid. If available at the time of payoff request, also include a copy of the good faith estimate or estimated closing cost statement and a recent appraisal of the direct loan property. If a current appraisal is not remitted at the time of the loan payoff request, the “Statement of Loan Balance” will reflect the maximum amount of subsidy recapture that may be due. When a current appraisal is submitted to the CSC, the payoff will reflect the actual amount of subsidy recapture due. The fax number for requests is (314)457-4433.
2. The “Statement of Loan Balance” will also include instructions for the lender to follow regardless of information submitted at the time of payoff request.

The CSC will not provide payoff quotes verbally or over the phone. The CSC also assists lenders with subordination agreements when direct loan borrowers elect to subordinate subsidy recapture due. Lenders and direct loan borrowers that have questions regarding a direct loan account may contact the CSC at (800) 414-1226.

Rural Development Responsibilities:

1. Deduct the upfront guarantee fee from the total loan amount and enter that figure as the appraised value in GLS.
2. Review the previous 12-month mortgage payment history. If a credit report is submitted, only review the 12-month mortgage payment history. If the mortgage account is currently delinquent or has been reported delinquent in the previous 12 months, the borrower is not eligible. Agency staff should use the “Borrower ID” with GLS Report “*GLSST01: Status of a GRH Loan Account*” to ensure the loan is currently active and not in default.
3. Enter 1 in the “FICO Score” data field when processing a Rural Refinance Pilot application in GLS.
4. Enter the repayment income calculation in GLS, but do not include any “Additional Liabilities” amounts. If the new mortgage payment results in ratios above 29 and/or 41 percent, check the box that indicates a debt ratio waiver has been issued by the Agency.

5. On the “Update Application” GLS loan screen under “Agency Information,” select the “Servicing Office” named “Rural Refi Pilot.” In the “Agency Notes” section enter a note to identify this loan as a “Rural Refinance Pilot Loan.” These steps will identify the loan as part of this pilot in the event of a loan review.
6. Once the Agency’s loan closing transaction has processed and a new *Loan Note Guarantee* has been issued, the Finance Office should be notified to terminate the original guarantee. Notifications may be made to the Finance Office, Guaranteed Loan Branch, Attn: FC-350 Box 200011, St. Louis, MO 63120-0011, or via fax at (314) 457-4279.

If you have any questions, please contact Kristina Zehr of the Guaranteed Loan Division at (202) 713-8779, or via email: kristina.zehr@wdc.usda.gov. The Single Family Housing Guaranteed Loan Division may also be contacted at (202) 720-1452.