Loan Note Guarantee

Form RD 3555-17

Single Family Housing Guaranteed Loan Program (SFHGLP)

December 2020
Grow Rural Homeownership and Your Business with a 90% Guarantee!
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.
Interest on interest payments are prohibited.

The Loan Note Guarantee will be void if the Note provides for payment of interest on interest.

Interest may be capitalized in connection with re-amortization.
Loan Note Guarantee will be unenforceable if loss is due to:

- Violation of the regulations
- 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.
- Failure to obtain required security
- Use of loan funds for unauthorized purposes
Indemnification

- Loan was not originated in accordance with regulation.
- Agency pays loss on loan that defaulted within 5 years of loan closing and 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; OR
  - Used an appraiser that was not properly licensed or certified.
Indemnification

- Loan origination includes fraud or misrepresentation.
  - Indemnification may be required regardless of time elapsed.
  - The Agency may use any other legal remedies it has against the originating lender.
- Loan Note Guarantee will remain in effect for any holder of the loan who acquired it from an originating lender.
The Closing Process

Provide loan closing documentation and fees within 30 days of loan closing.

May utilize Attachment 16-A as a documentation checklist.

Guaranteed Rural Housing Loan Closing Checklist

*Only required for manual loan closing submissions*

Lender Instructions. Submit only the identified documents. Include complete documentation to ensure an effective file flow. Documents must not exceed the maximum allowable age set forth in 7 CFR 2553 and accompanying Handbook. Rural Development will consider all documents submitted as the certified and true copy of the original documents retained in the lender's permanent file. All copies must be legible. The lender will submit the closing documents and fees so it is received by Rural Development within 30 days of loan closing. The preferred method of delivery is through use of the Agency's Automated Loan Closing. Lenders, who have yet to activate LLC, should use the electronic delivery to Rural Development. See https://www.rd.usda.gov/rd/dw/electronic-delivery for electronic delivery information by state.

In the subject line identify the case by: Loan Closing, Borrower Last Name, First Name

General Information

<table>
<thead>
<tr>
<th>Applicant(s):</th>
<th>Date:</th>
</tr>
</thead>
<tbody>
<tr>
<td>RD Borrower ID:</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lender Name:</th>
<th>Lender Point of Contact:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Identify who to contact with questions on the closing package, documentation, and/or corrections required)</td>
<td></td>
</tr>
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<th>Phone #:</th>
<th>Fax #:</th>
<th>Email:</th>
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Fee payments remitted via Pay.Gov interface with the LLC.

Enter closing information & upload documents via the Lender Loan Closing (LLC) System.

### The Closing Process

#### Post Loan Closing – Issuance of Loan Note Guarantee

<table>
<thead>
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<tbody>
<tr>
<td>Guarantee Fee – Payable to USDA or Rural Development – *Include a copy of Page 1 - Form RD 3555-18/18E</td>
</tr>
<tr>
<td>USDA Technology Fee – Payable to USDA or Rural Development</td>
</tr>
<tr>
<td>Form RD 3555-18/18E, Lender Certification:</td>
</tr>
</tbody>
</table>

*Lender is certifying all conditions listed or appearing on the commitment and/or CO/S Underwriting and Findings Report for this applicant have been fulfilled, the security instrument has been recorded and is a good and valid first lien on the property described.

<table>
<thead>
<tr>
<th>Promissory Note, copy with appropriate riders, if any</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final Closing Disclosure, copy of final</td>
</tr>
</tbody>
</table>

*The submitted form does not require signature.

| Additional Conditions, as noted on Form RD 3555-18/18E, or supplemented by Attachment |

Submit documentation of required conditions, as applicable. Those conditions indicating the lender should “Return in Lender’s Permanent File” should not be included in post-closing documents.
Interest Credit Settlement

Maturity date will be slightly less than 30 years.

Fewer funds required at closing.

Interest paid to the previous first day of the month.
Guaranteed Loan Fees

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

1. **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.

2. **Annual Fee**
   - Current fee is 0.35%.
   - Applies to purchase and refinance loans.
   - Based on scheduled unpaid principal balance.
   - 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.

3. **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.

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<td>Lender</td>
<td>Incomplete or correctable errors allow lenders to have 30 days to correct.</td>
<td>Acceptable closing documents are sent to the Agency.</td>
<td>Closing Documents do not meet all program requirements.</td>
</tr>
<tr>
<td>Agency</td>
<td>Burden of submitting a complete loan closing package is on the lender.</td>
<td>Lender will submit the Lender Certification and all necessary documents noted on the Conditional Commitment.</td>
<td>Lender did not follow Agency requirements and/or close the loan as based on the requirements of the Conditional Commitment.</td>
</tr>
<tr>
<td>Result</td>
<td>Lender will be notified of incomplete package by phone, email or regular mail.</td>
<td>Will review and approve closing documents and process upfront guarantee and technology fees.</td>
<td>Agency will not issue the LNG and insure the loan.</td>
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Agency Review of Closing Documents and Issuance of the Guarantee

HB-1-3555, Chapter 16.7
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**HB-1-3555, Chapter 16.7**

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<td>Lender will receive the LNG, Loan Amortization Schedule as an attachment to the Note</td>
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Lenders may sell guaranteed loans only to other USDA approved lenders.
Form RD 3555-17
(Rev. 04-20)
Page 2 of 3 - Borrower Name: ____________________________
RHS Borrower ID: ____________________________

or conditions. A note which provides for the payment of interest on interest shall not be guaranteed. If the note to which this instrument is attached or relates provides for the payment of interest on interest, then the Loan Note Guarantee is void. In addition, the Loan Note Guarantee will be unenforceable by the Lender to the extent any loan is declared in default by virtue of any lease, negligent servicing or failure to obtain the required security regardless of the time at which RHS acquires knowledge of the default. Any lease default will be unenforceable by the Lender to the extent that loan proceeds are used for purposes other than those approved by RHS in its Form RD 3555-18, "Conditional Commitment for Single Family Borrowing Loan Guarantee." Negligent servicing is defined as the failure to perform those services which a reasonably prudent lender would perform in servicing its own loan portfolio of loans that are not guaranteed. This term includes not only the concept of a failure to act but also not acting in a timely manner or acting contrary to the manner in which a reasonably prudent lender would act to the loss of loan security or until a final loss is paid. RHS determines that a Lender did not originate a loan in accordance with the requirements in 7 CFR part 3555 and RHS pays a claim under the Loan Guarantee. RHS may revoke the Lender's eligibility status in accordance with Section 3551.51 and may also require the Lender: (1) To indemnify RHS for the loss, if the payment under the guarantee was made within 60 months of loan closing or (2) To indemnify RHS for the loss regardless of how long ago the loan closed. If RHS determines that fraud or misrepresentation was involved in connection with the origination of the loan in accordance with Section 3551.108.

3. Lender will receive all payments of principal and interest, prepayment, and any other pledged on the account of the note, and the Lender shall make all payments of principal and interest to the Borrower.
Once the agency has prepared, issued and uploaded the Loan Note Guarantee to the agency’s imaging repository, the lender may view and display the Loan Note Guarantee.

- Click on the Loan Note Guarantee hyperlink to display, print and/or save the document.

- Select Cancel to return to the RH Lender Administration List page.
Loss Claim Coverage: The Basics

HB-1-3555, Chapter 19

Method 1
- 90% of the original principal amount actually advanced to the borrower.

Method 2
- 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.
Loss Claim Coverage: The Basics

HB-1-3555, Chapter 20.2

Method 1

- OPA is $50,000
- 90% of OPA = $45,000

Method 2

- OPA is $50,000
- 35% of OPA = $17,500
- 65% of OPA = $32,500
- 85% of 65% of OPA (32,500) = $27,625
- Payment Amount = $17,500 + $27,625 = $45,125
LEARNING CHECKS

7 CFR Part 3555 / HB-1-3555
Question

Loan Note Guarantee

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

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

A. TRUE       B. FALSE
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.
• The ________ will pay the annual fee to the Agency.

A. Borrower
B. Servicer
C. Loan Originator
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.
The technology fee may be passed to the borrower and included in the loan amount as an authorized loan purpose.

A. TRUE  B. FALSE
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.
The maximum that a servicer may collect from the Agency on a loss is the greater of:

- 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
B. FALSE

- The maximum that a servicer may collect from the Agency on a loss is the lesser of:
  - 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.
QUESTION
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
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
Way to Go!
LEARNING CHECK COMPLETED!
Lender Toolkit
PART 3555—GUARANTEED RURAL HOUSING PROGRAM

Contents

Subpart D—Underwriting the Applicant

§3555.151 Eligibility requirements.
§3555.152 Calculation of income and assets.
§53555.153-3555.199 [Reserved]
§3555.200 OMB control number.

HB-1-3555 SFH GUARANTEED LOAN PROGRAM TECHNICAL HANDBOOK

A consolidated version of the handbook is available. HB-1-3555 is a large document and may take sometime to load.

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Chapter 2 - Record Retention
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Chapter 4 - Lender Responsibilities
Chapter 5 - Origination and Underwriting Overview
Chapter 6 - Loan Purposes
Chapter 7 - Loan Terms and Conditions
Chapter 8 - Applicant Characteristics
Chapter 9 - Income Analysis
Chapter 10 - Credit Analysis
Chapter 11 - Ratio Analysis
Chapter 12 - Property and Appraisal Requirements
Chapter 13 - Special Property Types
Have a question on POLICY?
Contact the PAC team!

Need TRAINING?
Contact the LPA team!

Have a question on a SPECIFIC FILE?
Contact the OPD!
Lender Webpage

Monitor posted turn times daily

Don’t forget to sign up for GovDelivery updates

https://www.rd.usda.gov/page/sfh-guaranteed-lender

SFH Guaranteed Lender

COVID-19

An Important notice for servicers with loans insured or guaranteed by the Rural Housing Service CARES Act

Forbearance Fact Sheet for Mortgages and Servicers

Loan Status

We are currently reviewing new loan applications and conditions received on or before 06/19/2020

Subscribe to Notifications

Critical program information such as policy updates, funding statuses, and automation changes are sent by email through GovDelivery. Sign Up to Receive Critical Updates.

Overview

On February 16, 2020 we integrated the Guaranteed Loan Program into a single integrated national team! For more information, please reference our Integration Information sheet.

USDA Rural Development’s Guaranteed Loan Program assists approved lenders in providing up to 100% financing for eligible borrowers (households that do not exceed 115% of the Median Household Income) purchasing homes in eligible rural areas. Automated underwriting assistance through GUS (Guaranteed Underwriting System) allows for expanded ratios and flexible credit.

We now have Single Close Construction-to-Permanent Financial & single-close loan combines the features of a...