



IMPORTANT ANNOUNCEMENT

TO: Approved Chase Rural Housing Originators

DATE: May 27, 2010

FR: Jack Jones (*signed by Jack Jones*)

RE: **Lender Update 2010-25(L)
Funding for the USDA Guaranteed Rural Housing Program –
Implementation of Revised Conditional Commitments with Increased
Guarantee Fees: USDA Rural Development Confirmation**

In an announcement dated May 26, 2010, USDA Rural Development has now confirmed that the Agency will continue to accept and process application packages. As has been done previously when program funds are not available, USDA Rural Development will now issue loan approvals (Conditional Commitment: RD Form 1980-18) with modified language. During this timeframe, these modified approvals from USDA Rural Development will state that the approval is subject to:

- A. *The availability of funds and statutory authority to obligate such funds to support the proposed guarantee;*
- B. *The statutory authority to charge a sufficient guarantee fee, if any is needed, to support the proposed guarantee with available funding; and*
- C. *Should the lender pass on to the borrower a guarantee fee (described as a loan origination fee in USDA's announcement dated May 26, 2010), that is higher than the guarantee fee that RHS is ultimately authorized to charge on the proposed guaranteed loan, the lender agrees to promptly return the difference to the borrower.*

Note: If the guarantee fee was financed with loan proceeds, or paid with seller concessions, any excess as referred to in letter "C" of these "subject to" approvals cannot be returned to the applicant directly, and must be applied to the loan as a principal reduction.

By using this option, lenders can continue closing USDA Guaranteed Rural Housing loans when working with Chase Rural Housing.

In the announcement dated May 26, 2010, USDA Rural Development also stated:

- 1) *Rural Development will not reserve loan funds for applications in process during this timeframe.*
- 2) *Rural Development will continue to accept completed Section 502 Guaranteed loan program applications from approved lenders and issue Conditional Commitments for those applications that are eligible.*
- 3) *Lenders may close these loans as scheduled.*
- 4) *Rural Development will "obligate" funds for loans processed subject to A, B, and C above.*
- 5) *Once the funds are obligated, Rural Development will process lenders' Loan Note Guarantee requests when the loans are verified as being closed and all conditions of the Conditional Commitments have been satisfied.*
- 6) *The lender will assume all loss default risk for the loan until funds are available for Rural Development to obligate, and the Loan Note Guarantee is subsequently issued.*

- 7) *Subject to A, B, and C above, when the lender requests the Loan Note Guarantee, the lender must certify to the Agency, using the process provided in RD Form 1980-18, "Conditional Commitment for Single Family Housing Loan Guarantee," that there have been no adverse changes in the borrower's financial condition since the date the Conditional Commitment was issued by the Agency.*

In order to assist you with the operational impacts arising from this announcement by USDA Rural Development, we have addressed some commonly asked questions that we have received during similar periods of time when these modified "*subject to*" Conditional Commitments (RD Form 1980-18) have been implemented by USDA Rural Development:

(1) Will Chase purchase/fund my loan with these modified approvals?

Yes. These approvals that are "*subject to*" Congressional action are acceptable to Chase.

(2) Does this issue pertain to all USDA loan approvals?

No. If your file already has USDA's approval (Conditional Commitment: RD Form 1980-18) without this "*subject to*" language, your file is not impacted by this change. The guarantee fee amounts on these approvals already issued will not be increased.

As a reminder, if your loan is in a disaster-eligible county, the guarantee fee remains at 2.0% for purchase loans until that funding is exhausted. These loan approvals in disaster-eligible counties will not have this "*subject to*" language in the approval from USDA.

(3) What is the new guarantee fee?

The guarantee fees that will be reflected on these modified ("*subject to*") approvals are 3.50% for purchase loans, and 2.25% for refinance loans. As the USDA approvals (Conditional Commitments) are issued with this "*subject to*" language, lenders will begin to see these new guarantee fees. **If your USDA approval (Conditional Commitment: RD Form 1980-18) has "*subject to*" language, and also contains the previous guarantee fees of 2.00% for purchase loans and .50% for refinance loans, please contact your USDA Rural Development Office to confirm the accuracy of the guarantee fee.**

(4) Should I send my closing package to USDA Rural Development once the loan closes?

Yes. In order for lenders to receive their final guarantees at the earliest opportunity, as well as have Rural Development evaluate their closing packages for deficiencies, lenders should continue to send their closing packages to USDA Rural Development immediately following loan closing. However, the lender should not submit their payment to USDA Rural Development for the amount of the guarantee fee until the lender receives notification from USDA Rural Development that funds are available in order for the lender to obtain the final Loan Note Guarantee (RD Form 1980-17). The purpose of this procedural change is to allow the lender the opportunity to return excess funds collected at closing to the applicant (or to the loan as a principal reduction) in the event the guarantee fee is less than these proposed amounts at the time these legislative initiatives are finalized. Additionally, the lender cannot execute the Lender's Certification found on the second page of the Conditional Commitment (RD Form 1980-18) until funds are received and made available to USDA Rural Development following Congressional action.

(5) What does "The lender will assume all loss default risk for the loan until funds are available for Rural Development to obligate, and the Loan Note Guarantee is subsequently issued" mean?

The lender will not be able to obtain the final Loan Note Guarantee (RD Form 1980-17) once the loan is 30 or more days past due. When closing USDA loans that have approvals (Conditional Commitment: RD Form 1980-18) that contain this "*subject to*" language, lenders may want to consider eliminating the practice of "interest credit" which reduces the borrower's interest expense at closing and simultaneously advances the first payment due date one month. As always, loans that are not guaranteed by the USDA are subject to repurchase.

(6) How is the maximum loan amount calculated when the new guarantee fee amounts are being financed?

The maximum loan amount on purchase loans when the guarantee fee is being financed is determined by dividing the appraised value by a factor of .9650:

Maximum loan amount for purchases (with a financed guarantee fee) =

$$\text{Appraised Value} / .9650$$

Note: This equates to a maximum loan-to-value of 103.626% for purchase transactions when the guarantee fee is being financed.

The maximum loan amount on refinance loans when the guarantee fee is being financed is determined by dividing the appraised value by a factor of .9775:

Maximum loan amount on refinances (with a financed guarantee fee) =

$$\text{Appraised Value} / .9775$$

Note: This equates to a maximum loan-to-value of 102.301% for refinance transactions when the guarantee fee is being financed.

Reminder: When the guarantee fee is not being financed, the maximum loan amount is 100% of the appraised value. This would pertain to all loans where the guarantee fee is being paid by the seller or by the applicant with personal funds or gift funds at closing.

(7) What happens if my loan amount needs to be increased?

All loan amount increases must be approved by USDA Rural Development prior to loan closing. As a reminder, USDA Rural Development will not consider loan amount increases that are less than \$500. Requests for loan amount increases after USDA has issued an approval (Conditional Commitment: RD Form 1980-18) with a 2.00% guarantee fee and no “*subject to*” language should be considered very carefully, as the applicant may well receive a higher loan amount that also has a higher guarantee fee. The lender may also receive an approval that contains this “*subject to*” language as a result of the request to increase the loan amount.

We ask that you share this information with your loan origination and processing staff. As soon as funds are available to USDA Rural Development following this pending legislative action, we will send immediate notification to you.

As always, we appreciate your support of the home financing needs of rural America. If you have questions or need additional information, please feel free to call your Chase Rural Housing Account Executive.

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