



Single Family Housing Guaranteed Loan Program Implementation of Annual Fee Frequently Asked Questions

May 23, 2012

Volume 2

1. **Effective Date:** *According to Rural Development (RD) Administrative Notice (AN) number 4551, all loans obligated on or after October 1, 2011, will be charged an annual fee. What date does RD consider to be the obligation date?*

Response: The Obligation date is the date of the Conditional Commitment. The date can be found in the bottom left corner of Form RD 1980-18, "Conditional Commitment for Single Family Housing Loan Guarantee." See insert of the form below:

The image shows a portion of Form RD 1980-18. On the left, there is a yellow rectangular area with a "Date:" label and a blank line for the date. On the right, the text "UNITED STATES OF AMERICA" is printed above a "By:" label. Below "By:" are two horizontal lines for a signature and a title, with the label "(Title)" centered below the second line.

In Fiscal Year (FY) 2012, an annual fee of 0.3 percent is applicable for all loan applications (purchase, new construction and refinance transactions) with a Conditional Commitment dated on or after October 1, 2011. If the Conditional Commitment is dated **prior** to October 1, 2011, the loan is not subject to an annual fee. **Note:** The annual fee for FY 2013 and subsequent years is subject to change. The FY runs from October 1st to September 30th.

2. **Conditional Commitment Extension:** *If the lender requests an extension of a Conditional Commitment that was originally issued prior to October 1, 2011, will the annual fee provision apply?*

Response: No. A Conditional Commitment is effective for 90 days from the date of issuance. The funds for the loan should already be obligated with FY 2011 funds which are not subject to an annual fee.

Upon request from the lender, RD may grant one 90 day extension. If construction is involved the expiration date determined by RD may correspond with the projected completion date of

construction. The Conditional Commitment expiration date can be found on the form as shown below:

This conditional commitment will expire on _____⁴ unless the time is extended in writing by the Agency, or upon the
Lender's earlier notification to the Agency that it does not desire to obtain an Agency guarantee.

Please note it is the lender's responsibility to request an extension of the Conditional Commitment. A lender's failure to request an extension may result in the de-obligation of the loan by Rural Development. If for any reason a loan is de-obligated by Rural Development on or after October 1, 2011, any subsequent request for a Conditional Commitment will be subject to the annual fee provision....NO EXCEPTIONS.

3. Eligible Loan Purpose: Can the annual fee premium be included in the loan amount?

Response: No. The annual fee premium is not an eligible loan purpose. However, the upfront guarantee fee is eligible for inclusion in the loan amount.

4. Fee Disclosure: *How will the annual fee be disclosed?*

Response: RD will disclose the annual fee to the applicant via Form RD 1980-21, "Request for Single Family Housing Loan Guarantee." The annual fee is disclosed to the lender on Form RD 1980-18, "Conditional Commitment for Single Family Housing Loan Guarantee" and Form RD 1980-17, "Loan Note Guarantee." These forms were revised in February, 2012.

5. Calculating the Annual Fee: *How will the annual fee be calculated?*

Response: Based on the total loan amount (including any upfront guarantee fee financed in the loan), the initial fee for the first year of the loan will be determined and calculated based on the average yearly scheduled Unpaid Principal Balance (UPB) for the first year. Remaining years of the loan will also be calculated and charged on the average yearly scheduled UPB, not the actual UPB. A Guarantee Fee (upfront) & Annual Fee Calculator is available for public use to assist in calculating the upfront guarantee fee and annual fee. The calculator is located at the USDA LINC Training and Resource Library (<https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do>) under the Loan Origination header.

<p>Loan Origination</p> <p><u>Training</u></p> <p>/// UNDER CONSTRUCTION ///</p>	<p><u>Documentation and Resources</u></p> <p>Guarantee Fee & Annual Fee Calculator(EXCEL)</p> <p>Annual Fee Calculation Methodology (PDF)</p> <p>Annual Fee FAQ's (PDF)</p>
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Both the Guaranteed Underwriting System (GUS) and the internal Guaranteed Loan System (GLS) calculates and displays an annual fee loan amortization schedule.

6. **Lender Collection of Fees:** *Since the annual fee will be payable each year, are lenders allowed to establish an escrow account to collect the fee from the borrower on a monthly basis?*

Response: Yes. Lenders may establish an escrow account to collect the annual fee from the borrowers on a monthly basis. The initial annual fee will be disclosed to the lender on Form RD 1980-18, "Conditional Commitment for Single Family Housing Loan Guarantee" as shown below:

The annual fee for the first year of the loan, based upon the above stated principal amount of loan and stated interest rate of this commitment, is \$.²

² The annual fee is calculated each year at _____ % of unpaid balance. The annual fee for the first year will be calculated when the is closed based upon the loan amount. There after, the annual fee is calculated every 12 months based upon the average scheduled amortized unpaid principal balance. Billing for the annual fee will begin 12 months from the date of loan. The amount of this Commitment is based upon the stated principal loan amount and interest rate. Changes to either element will change the annual fee amount.

7. **Escrow:** When establishing a monthly escrow account to collect the annual fee, are lenders required to collect the exact amount calculated by the GUS and/or the Guarantee Fee & Annual Fee Calculator?

Response: No. GUS and the Guarantee Fee & Annual Fee Calculator use standard rounding to calculate the monthly annual fee amount. Lenders may choose to round up (i.e., \$24.87 may be rounded up to \$25.00) and collect slightly more than the amount indicated by GUS or the Guarantee Fee & Annual Fee Calculator. Since RD collects the fee from the lender on an annual basis, the Agency does not take issue with the monthly escrow amount collected by the lender. It is the lenders responsibility to apply all state and federal laws relating to the establishment and maintenance of an escrow account.

8. **Initial Escrow Contribution:** Can the initial escrow contribution (1-2 months cushion) that is attributable to the annual fee be included in the loan amount?

Response: The cost of establishing an escrow account is an eligible loan purpose, as long as the total loan amount does not exceed the appraised value of the property. The only time a loan amount may exceed the appraised value is when the upfront guarantee fee is financed into the loan.

9. **First Year Annual Fee:** Can the first year annual fee for a loan be paid by the borrower at settlement and placed in an escrow account?

Response: No. At settlement, the lender may only collect the amount needed to establish the escrow account to maintain an appropriate cushion.

10. **Billing:** *Are the premiums due in arrears?*

Response: Yes. The first annual fee premium will be due at the end of the first year of the loan. For example, if a loan closes anytime during October 2011, the first bill for the annual fee will be due on November 1, 2012 (the annual fee will be billed about the 18th day of the month preceding the billing due date). The Agency intends to make the billing and reconciliation files available to lenders by the 18th day of the month prior to the annual fee due date. Thus, all October 2011 loans will be shown on the billing file available on Oct. 18th, 2012 for the November 1st billing cycle. For more information on this process please see the [Guaranteed Annual Fee Implementation Guide](https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do) which is posted on the USDA LINC Training and Resource Library (<https://usdalinc.sc.egov.usda.gov/USDALincTrainingResourceLib.do>).

11. **Premium:** *Does the premium remain the same even if a customer makes additional principal payments?*

Response: Yes. The annual fee is based on the scheduled yearly average UPB and gives no consideration for additional principal payments or delinquent accounts where the actual average UPB is greater or less than the scheduled average UPB.

12. **Billing:** *How will we receive the bill for the annual fee?*

Response: Lenders will retrieve billing information from the Agency's Guaranteed Annual Fee (GAF) system. A GAF User Agreement will be required for each lender/servicer that will need access to billing files, annual fee payment remittance, etc... The Agency is in the process of developing the billing and payment process. Additional information on this process will be provided in the near future.

13. **Collection:** *AN 4551, indicates the annual fee will be collected through Pay.Gov. How will this process work?*

Response: The specifications for Pay.Gov are not yet fully developed. Additional information will be provided in the near future.

14. **Collection:** *How will you collect the annual fee for loans that may pay in full prior to complete development of Pay.Gov?*

Response: Until October 1, 2012, we will accept a paper check for the annual fee premium. Checks must be remitted to USDA, Rural Development as follows:

Lender must provide the:

- **Borrower's Full Name**
- **Borrower's ID#** (This is the USDA Rural Development Borrower ID, located on the Form 1980-17, Loan Note Guarantee)
- **Loan Closing date**
- **"SFH Annual Fee"** (must be annotated on the check)
- **The State in which the property is located**

The voucher and check (payable to "**USDA, Rural Development**") must be sent to the LockBox at:

USDA, Rural Development
PO Box 790391
St. Louis, MO. 63179-0391

Note: Once the automated billing process is implemented (October 1, 2012) all payments must be remitted electronically via Pay.Gov. Additional information will be provided in the near future.