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DEPARTMENT OF AGRICULTURE

Rural Housing Service

7 CFR Part 3555

RIN 0575-AD00

Single Family Housing Guaranteed Loan Program

**AGENCY:** Rural Housing Service, USDA.

**ACTION:** Proposed rule.

**SUMMARY:** The Rural Housing Service (RHS or Agency) proposes to amend the current regulation for the Single Family Housing Guaranteed Loan Program (SFHGLP) on the subjects of lender indemnification, principal reduction, refinancing, and qualified mortgage requirements.

**DATES:** Written or e-mail comments on the proposed rule must be received on or before [insert date 60 days from the date of publication in the Federal Register].

**ADDRESSES:** You may submit comments on this proposed rule by any one of the following methods:

- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments electronically.
- Mail: Submit written comments via the U.S. Postal Service to the Branch Chief, Regulations and Paperwork Management Branch, U.S. Department of Agriculture, STOP 0742, 1400 Independence Ave, SW., Washington, DC 20250-0742.

- Hand Delivery/Courier: Submit written comments via Federal Express mail, or other courier service requiring a street address to the Branch Chief, Regulations and Paperwork Management Branch, U.S. Department of Agriculture, 300 7th Street, SW., 7th Floor, Washington, DC 20024.

All written comments will be available for public inspection during regular work hours at the 300 7th Street, SW., 7th Floor address listed above.

**FOR FURTHER INFORMATION CONTACT:** Lilian Lipton, Loan Specialist, Single Family Housing Guaranteed Loan Division, STOP 0784, Room 2250, USDA Rural Development, South Agriculture Building, 1400 Independence Avenue SW., Washington, DC 20250-0784, telephone: (202) 260-8012, email is [lilian.lipton@wdc.usda.gov](mailto:lilian.lipton@wdc.usda.gov)

**SUPPLEMENTARY INFORMATION:** RHS proposes to amend the current regulation for the Single Family Housing Guaranteed Loan Program (SFHGLP) on the subjects of lender indemnification, principal reduction, refinancing, and qualified mortgage requirements.

Indemnification: The Agency seeks to expand its lender indemnification authority for loss claims in the case of fraud, misrepresentation, or noncompliance with applicable loan origination requirements. This action is taken to continue the Agency's efforts to improve and expand the risk management of the SFHGLP. The proposed change is in accordance with the recommendations in the Office of Inspector General Report 04703-003-HY, from October 2012.

Principal Reduction: The Agency is proposing to amend its regulations at 7 CFR 3555.10 and 3555.304 to add a new special loan servicing option to the SFHGLP that lenders may utilize while still maintaining the SFHGLP loan guarantee. The Agency will allow lenders to reduce the principal balance on behalf of borrowers in amounts up to 30 percent of the unpaid principal balance of the loan as of the date of default, inclusive of any Mortgage Recovery Advance (MRA), after the lender has exhausted all other traditional loss mitigation options such as a loan modification or forbearance.

Refinance: The Agency is proposing to amend its refinancing provisions at 3555.101(d)(3) to remove the requirement that the new interest rate be at least 100 basis points below the original loan rate. The interest rate reduction requirement of 3555.101(d)(3)(i) is being revised to simply require that the new interest rate not exceed the interest rate on the original loan.

The Agency is also proposing to amend its regulations at 7 CFR 3555.101 to add a new refinance option, “streamlined-assist,” which was formerly the Rural Refinance Pilot (pilot), to the SFHGLP. The streamlined-assist refinance differs from the traditional refinance options in that there is no appraisal or credit report requirement in most instances, as long as the borrower has not defaulted on their first mortgage during the previous 12 months. Appraisals are still required for refinancing direct loans where the borrower has received a subsidy, for purposes of calculating subsidy recapture.

Qualified Mortgage: The agency intends to amend its regulation to indicate that a loan guaranteed by RHS is a Qualified Mortgage if it meets certain requirements set forth by the Consumer Protection Finance Bureau (CFPB). The CFPB published a Qualified Mortgage rule (12 CFR 1026) which implements in part the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (P.L. 111-203). The CFPB rule includes a sunset provision that presumes RHS guaranteed loans are Qualified Mortgages until January 10, 2021, or until USDA publishes its own Qualified Mortgage rule, whichever comes first.

### **Classification**

This proposed rule has been determined to be non-significant by the Office of Management and Budget (OMB) under Executive Order 12866.

### **Executive Order 12988, Civil Justice Reform**

This rule has been reviewed under Executive Order 12988, Civil Justice Reform. Except where specified, all State and local laws and regulations that are in direct conflict with this rule will be preempted. Federal funds carry Federal requirements. No person is required to apply for funding under this program, but if they do apply and are selected for funding, they must comply with the requirements applicable to the Federal program funds. This rule is not retroactive. It will not affect agreements entered into prior to the effective date of the rule. Before any judicial action may be brought regarding the provisions of this rule, the administrative appeal provisions of 7 CFR part 11 must be exhausted.

## **Unfunded Mandates Reform Act**

Title II of the Unfunded Mandates Reform Act of 1995 (UMRA), Public Law 104-4, establishes requirements for Federal agencies to assess the effect of their regulatory actions on State, local, and tribal governments and the private sector. Under section 202 of the UMRA, the Agency generally must prepare a written statement, including a cost-benefit analysis, for proposed and final rules with "Federal mandates" that may result in expenditures to State, local, or tribal governments, in the aggregate, or to the private sector, of \$100 million, or more, in any one year. When such a statement is needed for a rule, section 205 of the UMRA generally requires the Agency to identify and consider a reasonable number of regulatory alternatives and adopt the least costly, most cost-effective, or least burdensome alternative that achieves the objectives of the rule.

This proposed rule contains no Federal mandates (under the regulatory provisions of Title II of the UMRA) for State, local, and tribal governments or the private sector. Therefore, this rule is not subject to the requirements of sections 202 and 205 of the UMRA.

## **Environmental Impact Statement**

This document has been reviewed in accordance with 7 CFR Part 1940, subpart G, "Environmental Program." It is the determination of the Agency that this action does not constitute a major Federal action significantly affecting the quality of the human environment, and, in accordance with the National Environmental Policy Act of 1969, Pub. L. 91-190, neither an Environmental Assessment nor an Environmental Impact Statement is required.

**Executive Order 13132, Federalism**

The policies contained in this rule do not have any substantial direct effect on States, on the relationship between the national government and States, or on the distribution of power and responsibilities among the various levels of government. Nor does this rule impose substantial direct compliance costs on State and local governments. Therefore, consultation with the States is not required.

**Regulatory Flexibility Act**

In compliance with the Regulatory Flexibility Act (5 U.S.C. 601 et seq.) the undersigned has determined and certified by signature of this document that this rule change will not have a significant impact on a substantial number of small entities. This rule does not impose any significant new requirements on Agency applicants and borrowers, and the regulatory changes affect only Agency determination of program benefits for guarantees of loans made to individuals.

**Executive Order 13175, Consultation and Coordination with Indian Tribal Governments**

This executive order imposes requirements on RD in the development of regulatory policies that have Tribal implications or preempt tribal laws. RD has determined that the proposed rule does not have a substantial direct effect on one or more Indian Tribe(s) or on either the relationship or the distribution of powers and responsibilities between the Federal Government and Indian Tribes. Thus, this rule is not subject to the requirements

of Executive Order 13175. If a Tribe determines that this rule has implications of which RD is not aware and would like to engage with RD on this rule, please contact RD's Native American Coordinator at (720) 544-2911 or [AIAN@wdc.usda.gov](mailto:AIAN@wdc.usda.gov).

### **Executive Order 12372, Intergovernmental Consultation**

This program/activity is not subject to the provisions of Executive Order 12372, which require intergovernmental consultation with State and local officials. (See the Notice related to 7 CFR part 3015, subpart V, at 48 FR 29112, June 24, 1983; 49 FR 22675, May 31, 1984; 50 FR 14088, April 10, 1985).

### **Programs Affected**

This program is listed in the Catalog of Federal Domestic Assistance under Number 10.410, Very Low to Moderate Income Housing Loans (Section 502 Rural Housing Loans).

### **Paperwork Reduction Act**

The information collection and record keeping requirements contained in this regulation have been approved by OMB in accordance with the Paperwork Reduction Act of 1995 (44 U.S.C. 3501 et seq.). The assigned OMB control number is XXXX-XXXX.

### **E-Government Act Compliance**

The Rural Housing Service is committed to complying with the E-Government Act, to promote the use of the Internet and other information technologies to provide increased

opportunities for citizen access to Government information and services, and for other purposes.

### **Non-Discrimination Policy**

The U.S. Department of Agriculture (USDA) prohibits discrimination against its customers, employees, and applicants for employment on the bases of race, color, national origin, age, disability, sex, gender identity, religion, reprisal, and where applicable, political beliefs, marital status, familial or parental status, sexual orientation, or all or part of an individual's income is derived from any public assistance program, or protected genetic information in employment or in any program or activity conducted or funded by the Department. (Not all prohibited bases will apply to all programs and/or employment activities.)

If you wish to file a Civil Rights program complaint of discrimination, complete the [USDA Program Discrimination Complaint Form](#) (PDF), found online at [http://www.ascr.usda.gov/complaint\\_filing\\_cust.html](http://www.ascr.usda.gov/complaint_filing_cust.html), or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at [program.intake@usda.gov](mailto:program.intake@usda.gov).

Individuals who are deaf, hard of hearing or have speech disabilities and you wish to file either an EEO or program complaint please contact USDA through the Federal Relay Service at (800) 877-8339 or (800) 845-6136 (in Spanish).



Persons with disabilities who wish to file a program complaint, please see information above on how to contact us by mail directly or by email. If you require alternative means of communication for program information (e.g., Braille, large print, audiotape, etc.) please contact USDA's TARGET Center at (202) 720-2600 (voice and TDD).

### **Background Information**

Indemnification: In the Office of Inspector General (OIG) Report 04703-003-HY, SFH GL Loss Claims, the Agency was requested to re-evaluate the timeframe in which the Government can seek indemnification for noncompliance with regulations in loan origination. Present language in 7 CFR 3555.108(d)(1) limits the indemnification to losses if the payment under the guarantee was made within 24 months of loan closing. Origination defects which depart from Agency requirements, however, may cause defaults beyond 24 months from loan closing. Similarly, claims arising from defective originations may occur several years after loan closing. The proposed change will trigger indemnification if the default occurs within 5 years from origination, the Agency concludes the default arose because the originator did not underwrite the loan according to Agency standards and guidelines, and regardless of when the claim is paid. This is similar to how HUD and other federal agencies operate.

The Agency may also seek indemnification if the Agency determines that fraud or misrepresentation occurred in connection with the origination of the loan, regardless of when the loan closed. 7 CFR 3555.108(d)(2). This provision is being clarified to state

that the Agency may seek indemnification in cases of fraud or misrepresentation regardless of when the loan closed or when the default occurred.

In addition, the definition of “default” has been added to section 3555.10 to clarify that default is when an account is more than 30 days overdue. This is consistent with how the term is used in the mortgage industry.

Principal Reduction Advance (PRA): The Helping Families Save Their Homes Act of 2009 was signed into law on May 20, 2009. Section 101 of this law amended section 502(h) of the Housing Act of 1949 (42 U.S.C. 1472(h)), which authorizes the SFHGLP. The amendments gave RHS the authority to establish a program for the payment of partial claims to approved guaranteed lenders who agree to apply the claim amount to the payment of a loan in default or facing imminent default under Section 502(h)(14) of the Housing Act. RHS published a final rule under this authority on August 26, 2010 (see 75 FR 52429).

Under this authority, the Agency proposes to add paragraph 7 CFR 3555.304(e) to reimburse lenders for PRAs made on behalf of borrowers in default or facing imminent default. The lender must consider all other traditional loan servicing options, including forbearances and loan modifications, prior to requesting a PRA. The Agency proposes that the MRA will continue to include the sum of arrearages not exceeding 12 months of PITI, annual fees, legal fees, and foreclosure costs related to a cancelled foreclosure action, but will no longer include any principal deferments or reductions. A PRA will

follow an MRA if necessary to bring the borrower's total monthly mortgage payment to 31 percent of gross monthly income. The PRA cannot be issued without an MRA; the MRA may be issued independently of a PRA. The purpose of the PRA is to ensure the modified loan is affordable to the borrower with the potential of also addressing housing market pricing imbalances that impact borrowers in default or in imminent danger of default. The PRA cannot be extended more than once to provide borrower relief. Lenders must receive written approval from RHS prior to servicing a borrower's account with a PRA. As with other special servicing options, the Lender must submit a servicing plan to RHS pursuant to 7 CFR 3555.301(h) when a borrower's account is 90 days delinquent and a method other than foreclosure is recommended to resolve the delinquency. Use of special loan servicing does not change the terms of the loan note guarantee.

Section 502(h)(14) of the Housing Act of 1949 limits the amount of the partial claim to no more than 30 percent of the unpaid principal balance of the mortgage plus any costs that are approved by the Secretary. The maximum principal reduction amount that can be achieved through a combination of both the MRA and PRA can therefore not exceed 30 percent of the unpaid principal balance as of the date of default. The PRA is only permitted in cases when all special servicing requirements are met, notably, that the mortgage payment-to-income ratio after special servicing is reduced to 31 percent or a proximate value extremely close to, but not less than, 31 percent, and the total debt-to-income ratio after special servicing is not more than 55 percent. The trial payment plan described in paragraph 3555.304(b) is also applicable when PRAs take place. In order to

provide principal reductions for borrowers who purchased properties at unrealistically inflated values during the period from 2001 to 2009, PRAs will be limited to loans originated and closed on or after January 1, 2001 through January 1, 2010.

Section 3555.304(e)(2) discusses how the amount of a PRA must be subject to an unsecured promissory note which is interest and payment free, due three years from the date of the principal reduction advance, and may be forgiven at the end of three years if the borrower and loan account are in good standing. To be in good standing, the account may not have been more than 60 days delinquent at any time after the date of the PRA. If the debt is forgiven, RHS must report this amount to the Internal Revenue Service as income for the borrower.

Section 3555.304(e)(3) discusses how a Lender files a claim with RHS for reimbursement of a principal reduction advance. First, a claim for reimbursement must be submitted to RHS within 60 days of the advance being executed by the borrower through his or her signature on the promissory note. When filing the claim for reimbursement with RHS, the Lender must submit the original promissory note with the other supporting documentation for the claim.

In order to avoid confusion between the MRA and PRA, the Agency proposes to remove references to principal reduction or deferment in the MRA regulations. Revisions to the definition of MRA in 7 CFR 3555.10 and the MRA provisions in 7 CFR 3555.304(d)(1) and (3) reflect that proposed change. This rule also amends 7 CFR

3555.10, “Definitions and Abbreviations,” to include the terms introduced in 7 CFR 3555.304(e).

Refinance: There are currently two refinance options available to Section 502 borrowers, and the Agency wishes to add a third option which has been successfully tested in a pilot. The Agency is proposing to amend section 3555.101(d)(3)(i) to remove the requirement that the interest rate of a refinanced loan be at least 100 basis points below the original rate, and instead to require that the new interest rate not exceed the original interest loan’s interest rate. The interest rate reduction requirement has proven problematic in rising rate environments. For example, in the case of divorce, the borrower may not be able to refinance as required by their divorce decree or judgment because they cannot secure an interest rate at least 1 percent lower than the first one. The definition of “streamlined-assist refinance” is being added to 7 CFR 3555.10. On February 1, 2012 RHS created a refinancing pilot known as the “Rural Refinance Pilot.” The pilot was published in Administrative Notice numbers 4634, 4704, 4720, and 4749. The streamlined-assist refinance differs from the traditional refinance options in that there is no appraisal or credit report requirement in most instances, as long as the borrower has been current on their first mortgage for the previous 12 months and their new interest rate is at least 1 percent lower than their first one. A new appraisal is required for direct loan borrowers who received a subsidy for the purposes of calculating subsidy recapture.

The pilot was designed to assist existing Section 502 direct or guaranteed loan borrowers in refinancing their homes with greater ease in thirty-five eligible states where steep home price declines, unemployment and persistent poverty rates made refinancing a current mortgage into more affordable terms difficult or impossible. Due to the success of the pilot program, RHS will implement the pilot as a refinance option for existing Section 502 direct or guaranteed loan borrowers nationwide in addition to the two traditional refinance loan options of streamlined and non-streamlined. The special refinance loan option will be called “streamlined-assist.”

This rule proposes to amend 7 CFR 3555.101(d)(vi) to include “streamlined-assist” as one of three available refinance loan options in addition to the traditional “streamlined” and “non-streamlined” refinance loans. Section 3555.101(d)(vi) discusses eligibility requirements for each streamlined and non-streamlined refinance loan. The streamlined-assist refinance will have the same features as the Rural Refinance Pilot described above. Additional eligibility criteria for refinance loans is discussed in Section 3555.101(d)(3).

Qualified Mortgage: The agency proposes a rule change to Section 3555.109, to indicate that a loan guaranteed by RHS meeting certain CFPB requirements is a “Qualified Mortgage.”

The CFPB published a “Qualified Mortgage” rule (12 CFR 1026) which became effective January 10, 2014 and implemented in part the Dodd-Frank Wall Street Reform

and Consumer Protection Act of 2010 (P.L. 111-203). This rule requires creditors to make a reasonable, good faith determination of a consumer's repayment ability for any consumer credit transaction secured by a dwelling, and establishes a safe harbor from liability for transactions that meet the requirements for "qualified mortgages." Currently, SFHGLP loans are considered to be qualified mortgages if they meet the requirements in 12 CFR 1026.43(e)(2)(i)-(iii) and the points and fees limits in 12 CFR 1026.43(e)(3) until RHS promulgates its own rules regarding qualified mortgages, or January 10, 2021, whichever is earlier. (See 12 CFR 1026.43(e)(4)).

RHS guaranteed loans currently meet these requirements. Therefore, section 3555.109 will clarify that RHS guaranteed loans which meet the CFPB requirements in 12 CFR 1026.43(e)(2)(i)-(iii) and 12 CFR 1026.43(e)(3) are considered qualified mortgages. Also, the definition of "qualified mortgage" will be added to 7 CFR 3555.10.

#### **List of Subjects in 7 CFR Part 3555**

Home improvement, Loan Programs – Housing and community development, Mortgage insurance, Mortgages, Rural areas.

For the reason stated in the preamble, Chapter XVIII, Title 7 of the Code of Federal Regulations is proposed to be amended as follows:

#### **PART 3555 – GUARANTEED RURAL HOUSING PROGRAM**

1. The authority citation for part 3555 continues to read as follows:

**Authority:** 5 U.S.C. 301, 7 U.S.C. 1989, 42 U.S.C. 1480, and Subpart E of 7 U.S.C. 1932(a).

## **Subpart C – Loan Requirements**

2. Amend § 3555.10 by adding in alphabetical order the definition for “Default,” revising the definition of “Mortgage recovery advance,” and adding in alphabetical order definitions for “Principal reduction advance,” “Qualified mortgage,” and “Streamlined-assist refinance” to read as follows:

### **§ 3555.10      Definitions and abbreviations.**

\*       \*       \*       \*       \*

*Default.* A loan is considered in default when a payment has not been paid after 30 days from the date it was due.

\* \* \* \* \*

*Principal reduction advance.* A principal reduction advance is funds advanced by the Lender on behalf of a borrower to reduce the principal balance of the loan.

\* \* \* \* \*

*Mortgage recovery advance.* A mortgage recovery advance is funds advanced by the lender on behalf of a borrower to satisfy the borrower’s arrearage, and pay legal fees and foreclosure costs related to a cancelled foreclosure action.

\* \* \* \* \*



Qualified mortgage. A qualified mortgage is a guaranteed loan under this part which meets all Agency requirements as well as the restrictions in 12 CFR 1026.43(e)(2)(i) through (iii) and the points and fees limits in 12 CFR 1026.43(e)(3).

\* \* \* \* \*

Streamlined-assist refinance. A streamlined-assist refinance is an abbreviated method of refinancing which does not require a credit report, or the calculation of loan-to-value or debt-to-income ratios. Lenders must verify that the borrower has been current on their existing loan for the preceding 12 month period.

\* \* \* \* \*

3. Section 3555.101 is amended by:

a. Revising paragraphs (d)(3)(i) and (ii).

b. Removing paragraph (d)(3)(iv).

c. Re-designating paragraphs (d)(3)(v) through (x) as (d)(3)(iv) through (ix)

respectively.

The revisions read as follows:

**§ 3555.101    Loan Purposes**

\* \* \* \* \*

(d) \* \* \*

(3) \* \* \*

(i) Three options for refinancing may be offered: streamlined, non-streamlined, and streamlined-assist. Other than provided in this paragraph, no cash out is permitted

for any refinance. Documentation costs and underwriting requirements of subparts D, E, and F of this part apply to streamlined and non-streamlined refinances.

(A) Lenders may offer a streamlined refinance for existing Section 502 Guaranteed loans, which does not require a new appraisal. The lender will pay off the balance of the existing Section 502 Guaranteed loan. The new loan amount cannot include any closing costs or lender fees.

(B) Lenders may offer non-streamlined refinancing for existing Section 502 Guaranteed or Direct loans, which requires a new and current market value appraisal. The amount of the new loan must be supported by sufficient equity in the property as determined by an appraisal. The appraised value may be exceeded by the amount of up-front guarantee fee financed, if any, when using the non-streamlined option.

(C) A streamlined-assist refinance loan is a special refinance option available to existing Section 502 direct and guaranteed loan borrowers. Applicants must meet the income eligibility requirements of §3555.151(a), and must not have had any defaults during the 12 month period prior to the refinance loan application. There are no debt-to-income calculation requirements, no credit report requirements, no property inspection requirements, and no loan-to-value requirements. There is no appraisal requirement except for Section 502 direct loan borrowers who have received a subsidy.

(ii) The interest rate of the new loan must be fixed and must not exceed the interest rate of the original loan being refinanced.

\* \* \* \* \*

4. Amend § 3555.108 by revising paragraph (d) to read as follows:

**3555.108 Full faith and credit.**

\* \* \* \* \*

(d) Indemnification. If the Agency determines that a Lender did not originate a loan in accordance with the requirements in this part, and the Agency pays a claim under the loan guarantee, the Agency may revoke the lender's eligibility status in accordance with subpart B of this part and may also require the lender:

(1) To indemnify the Agency for the loss, if the default leading to the payment of loss claim occurred within five (5) years of loan closing, and the default arose from failure to originate the loan in accordance with agency requirements; or:

(2) To indemnify the Agency for the loss regardless of how long ago the loan closed or the default occurred, if the Agency determines that fraud or misrepresentation was involved with the origination of the loan.

(3) In addition, the Agency may use any other legal remedies it has against the Lender.

\* \* \* \* \*

5. Add § 3555.109 to read as follows:

**§ 3555.109     Qualified mortgage**

A qualified mortgage is a guaranteed loan meeting the requirements of this part and applicable Agency guidance, as well as the requirements in 12 CFR 1026.43(e)(i) through (iii) and 12 CFR 1026.43(e)(3).

6. Section 3555.304 is amended by:

- a. Revising paragraph (d)(1).
- b. Removing paragraph (d)(3).
- c. Re-designating paragraphs (d)(4) through (8) as (d)(3) through (7) respectively.

d. Adding paragraph (e).

The revisions read as follows:

**3555.304 Special servicing options.**

\* \* \* \* \*

(d) \* \* \*

(1) The maximum amount of a mortgage recovery advance is the sum of arrearages not to exceed 12 months of PITI, annual fees, legal fees and foreclosure costs related to a cancelled foreclosure action.

\* \* \*

(e) *Principal reduction advance.* A principal reduction advance cannot be issued independently of a mortgage recovery advance, and the amount of the principal reduction advance, when combined with the mortgage recovery advance, cannot exceed 30 percent of the unpaid principal balance as of the date of default. Principal reduction advances can be considered only for loans originated and closed on or after January 1, 2001 through January 1, 2010.

(1) After a mortgage recovery advance has been calculated, the principal reduction amount for the modified mortgage is determined by calculating how much principal reduction advance is needed to achieve a mortgage payment-to-income ratio that is 31 percent or a proximate value extremely close to, but not less than, 31 percent, while ensuring that the total debt-to-income ratio does not exceed 55 percent and that the combined mortgage recovery advance and principal reduction advance does not exceed 30 percent of the unpaid principal balance.

(2) The Lender must have the borrower execute an unsecured promissory note payable to RHS for the amount of the principal reduction advance.

(3) The following terms apply to the repayment of principal reduction advances:

(i) The principal reduction advance debt under the promissory note shall be interest-free.

(ii) Borrowers are not required to make any monthly or periodic payments on the principal reduction advance note; however, borrowers may voluntarily submit partial payments without incurring any prepayment penalty.

(iii) The due date for the principal reduction advance note shall be three years from the date of the note. Prior to the due date on the principal reduction note, payment in full under the note is due should the borrower transfer title to the property by voluntary or involuntary means within three years of the principal reduction advance.

(iv) At the conclusion of three years, RHS will review the account and determine if it is in good standing. An account will be deemed in good standing if it has not been 60 days or more delinquent over the past three years. If the debt is forgiven, RHS must report this amount to the Internal Revenue Service in accordance with applicable law and regulations.

(v) If the account is in good standing at the conclusion of the three year period, RHS will forgive the principal reduction advance note and the borrower will be released of all liability from the principal reduction advance promissory note.

(vi) If the account is not in good standing, the principal reduction advance note will be payable and due in full. The Agency will collect this Federal debt from the

borrower by any available means if the principal reduction advance is not repaid based on the terms outlined in the promissory note.

(4) The lender may request reimbursement from the Agency for a principal reduction advance. A fully supported and documented claim for reimbursement must be submitted to the Agency within 60 days of the advance being completed. To be complete, the lender must provide the original promissory note to the Agency.

(5) The loss claim filed by the lender will be adjusted by any amount of principal recovery advance reimbursed to the lender by the Agency.

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Dated: January 20, 2015.

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Tony Hernandez

Administrator

Rural Housing Service

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