



United States Department of Agriculture
Rural Development
State Office

August 24, 2004

SUBJECT: Wisconsin Rural Development Guaranteed Rural Housing (GRH) Update
TO: Approved GRH Lenders, Originators, and Loan Servicers

Following is important information regarding the funding status and program delivery of Wisconsin's GRH loan program. Please distribute this information to all of your branch offices, correspondent banks, or mortgage originators that originate GRH loans in Wisconsin.

URGENT! GRH FISCAL YEAR 2004 FUNDING STATUS **URGENT!**

Effective today, the Congressionally apportioned Fiscal Year 2004 funding for GRH purchase loans has been exhausted. It is expected that Rural Development will not be able to fund new loan guarantees from late August through the first several weeks of October. As part of the annual appropriations process, it is anticipated that next fiscal year's (Fiscal Year 2005) GRH funding will be available in mid-October, subject to approval by Congress and the President.

As it did last fiscal year, Rural Development will implement a procedure for its lenders to continue to process, receive Agency conditional approvals, and close loans even when funding for new GRH loans is temporarily unavailable. Rural Development will continue to accept, review, and conditionally approve loan packages from lenders until Fiscal Year 2005 appropriations are received.

The following steps will apply:

- 1) Rural Development is unable to accept new requests from lenders for the reservation of loan funds (for pending applications) during this timeframe.
- 2) Rural Development will continue to accept complete underwritten GRH loan applications from lenders.
- 3) Rural Development will process, approve, and issue Conditional Commitments for those applications that are eligible, *subject to the availability of Congressionally appropriated funding. **Loans processed under these procedures will carry a guarantee fee of 2 percent due to an anticipated 25 basis point fee increase that may be enacted as part of the Fiscal Year 2005 appropriation. If the fee increase***

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is not enacted, Rural Development will not collect the additional 25 basis point at the time of the issuance of the Loan Note Guarantee.

- 4) Lenders may close these loans as scheduled.
- 5) Rural Development will "Obligate" funds for any loans processed in this manner when funds become available through Fiscal Year 2005 appropriations.
- 6) Once the loans are obligated with Fiscal Year 2005 appropriations, Rural Development will process lenders' Loan Note Guarantee requests as soon as the loans are verified as being closed and all conditions of the Conditional Commitments have been satisfied.
- 7) The lender assumes all loss default risk for the loan until Rural Development is able to fund it and issue the Loan Note Guarantee, and will be required to certify that the loan is not in default and that there have been no adverse changes in the borrower's financial condition as of the date the guarantee is issued.

Please note that Rural Development will not be able to issue Loan Note Guarantees for loans approved and closed as described in the above process until funding is made available. For loans subject to this process, Rural Development will insert language on its Conditional Commitment form indicating that the guarantee for the loan is subject to the availability of Congressionally appropriated funds.

Loans in process that have a confirmed loan reservation from Rural Development from Fiscal Year 2004 appropriations will not be subject to delays in Loan Note Guarantee issuance due to lack of funding. Lenders may continue to request loan reservations for new refinance loans for as long as Fiscal Year 2004 funds remain available.

RESERVATION OF FUNDS

At the present time, we are unable to reserve additional GRH funds via Form RD 1980-86 "Request for Reservation of Funds" for purchase transactions. **If you will not be able to submit a complete underwritten file for obligation prior to September 30, 2004 on applications with an existing Confirmation of Funds, please let our office know immediately.** Any unclosed loans in process with a Conditional Commitment that will not be closing as a GRH loan must be cancelled by the Lender. These existing reservations and Conditional Commitments will need to be cancelled so that funds may be used for files that are complete and waiting for funding. All lenders need to look at their loans in process to ensure that they are viable deals and send Rural Development a complete underwritten file as soon as possible.

LOAN CLOSING PACKAGES

For GRH loan files that have had Conditional Commitments issued **WITHOUT** funding being available, we would encourage Lenders to hold these closing packages and guarantee fees until you have been notified by our office that your loan has been funded. One requirement with closing the loans prior to having funding for the Conditional Commitment is that the Lender Certification (reverse page of Form RD 1980-18 “Conditional Commitment”) can not be dated prior to the obligation date (date the loan is funded). The Lender must complete and date the certification **AFTER** the obligation date to ensure Rural Development that there have been no changes to the application since the Conditional Commitment was issued.

INCREASE IN LOAN AMOUNTS

Lenders will need to make certain that all requested loan amounts are correct BEFORE the loan is obligated by Rural Development. Obtaining additional monies to increase obligations will be extremely difficult during this time. Please look at all other alternatives for the small, additional amounts that may be required before sending a request for additional funds to Rural Development.

We regret the delay in obtaining guarantee authority and any disruption to lender processing. Your continued support of the GRH loan program during this transition period is greatly appreciated. If you have any questions regarding this memo, call 1-866-GRH-3600 and ask for a Guaranteed Housing Specialist.

/s/

PETER G. KOHNEN
Housing Program Director

PGK: pjb

