

July 30, 2015

TO: State Directors
Rural Development

ATTN: Program Directors
Multi-Family Housing

FROM: Tony Hernandez
Administrator
Housing and Community Facilities Programs

SUBJECT: Guidance on Loan Modifications in the Section 538 Guaranteed Rural Rental Housing Program (GRRHP)

The intent of this Unnumbered Letter (UL) is to provide guidance on loan modifications to reduce the interest rate of existing Section 538 GRRHP loan guarantees. It is written for the sole use of the Rural Development State Office staff and area offices involved in processing Section 538 guaranteed loan modifications.

Section 538 GRRHP borrowers and lenders may agree to a loan modification when the action will improve the financial viability of the project and its operations.

To request a loan modification, the incumbent Lender will submit to the Agency:

- A summary of the transaction detailing the projected change in interest rate (interest rate must be fixed), pro forma debt service coverage (after modification, must be equal to or greater than 1.15) and benefits to the property and borrower, including a projected debt service savings.
- Certification that the original term (maturity date and guarantee term) of the guaranteed loan will not be modified.
- Certification that the outstanding principal balance will not be modified.
- Certification that there will not be a negative impact to the tenants.
- Certification that the borrower is in compliance with all program requirements. If the borrower is not in compliance, the lender must submit documentation to show how the modification will bring the borrower into compliance.

EXPIRATION DATE:
June 30, 2016

FILING INSTRUCTIONS:
Housing Programs

- Certification that there are no asset management issues.
- Most recent and interim financial statements and lender analysis.
- Sources and Uses statement. Any third party lender costs such as attorney fees, processing fees, title and recording cost must be disclosed.
- Lender's attorney will attest that the modification meets state law requirements
- If approved, the lender will be responsible for closing the transaction. Agency will review, verify and approve all closing documents, if applicable (Mortgage Note, Deed of Trust, amended Promissory Note, Loan Note Guarantee).
- Certification that third party lender costs may not be added to the principal of the guaranteed loan.
- Any out-of-pocket costs incurred by the lender or the owner related to the modification cannot be from project funds or loan proceeds.

If the loan guarantee is deemed eligible for the loan modification, new or revised lockout and prepayment terms may be added to allow the mortgage to be re-securitized with Ginnie Mae. Prepayment penalties may not be added to the loan balance.

The Agency shall do the following in response to the request for a loan modification:

- Review all documentation and provide an approval or denial response to the lender in writing within 30 business days of receipt of the request. Requests that are approved by the State Office must receive National Office concurrence.
- If the modification is approved, the Finance Office must be contacted to update GLS with the lower interest rate.

If you have any questions regarding this UL, please contact Tammy S. Daniels of the Multi-Family Housing Guaranteed Loan Division at (202) 720-0021 or tammy.daniels@wdc.usda.gov.