

TO: State Directors, Rural Development

ATTN: Business Programs Directors

SUBJECT: Business and Industry Guaranteed and  
Section 9007 Rural Energy for America Programs  
Annual Renewal Fee

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance and clarification regarding annual renewal fee.

COMPARISON WITH PREVIOUS AN:

There is no previous AN issued on this subject.

IMPLEMENTATION RESPONSIBILITIES:

RD Instruction 4279-B, section 4279.107(b), sets forth guidance regarding the annual renewal fee. The annual renewal fee is paid once a year and is required to maintain the enforceability of the guarantee as to the lender. The rate of the annual renewal fee (a specified percentage) is established by Rural Development in an annual notice published in the Federal Register, multiplied by the outstanding principal loan balance as of December 31 of each year, multiplied by the percent of guarantee. The rate of the annual renewal fee is the rate in effect at the time the loan is obligated, and will remain in effect for the life of the loan.

Annual renewal fees are due on January 31. Payments for the annual renewal fees not received by April 1 are considered delinquent and are subject to a late fee, at the Agency's discretion, the Loan Note Guarantee may result in cancellation of the guarantee to the lender. Holders' rights will continue in effect as specified in the Loan Note Guarantee and Assignment Guarantee Agreement. The late fee will be in the form of accrued interest calculated at the note rate/basis and will continue to accrue interest until such time the payment is received by the Agency. Any delinquent annual renewal/late fees will be deducted from any loss payment due the lender. For

EXPIRATION DATE:  
June 30, 2013

FILING INSTRUCTIONS  
Preceding RD Instructions 4279-B, 4280-B, and 4287-B

loans where the Loan Note Guarantee is issued between October 1 and December 31, the first annual renewal fee payment will be due January 31 of the second year following the date the Loan Note Guarantee was issued. On loans that were closed on or after October 3, 2005, the payment of the annual renewal fee also applies to Transfer and Assumption where equity is provided under 7 C.F.R. 4287.134(j).

100 PERCENT REPURCHASE BY THE AGENCY:

When the Agency repurchases 100 percent of the guaranteed portion of the loan from the secondary market, the Agency will discontinue collection of the annual renewal fee from the lender. The fee will not be due as long as the Agency has repurchased 100 percent of the guaranteed portion. The Guaranteed Loan System (GLS) is not set up to automatically set the annual renewal fee percent to zero for those loans where the Agency holds 100 percent of the guarantee. The Finance Office must manually set the annual fee percent to zero until such time GLS is enhanced. This will prevent these loans from showing up in GLS with an annual renewal fee due from the Lender to the Agency.

Lenders are entitled to a refund from the Finance Office for all loans closed after October 3, 2005, in which the Agency continued collecting the annual renewal fee after repurchasing 100 percent of the guaranteed portion of the loan in full from the secondary market. The Finance Office will refund the annual renewal fee. No accrued interest will be included in the refund payments to the lender.

A PORTION HAS BEEN REPURCHASED BY THE AGENCY:

When the Agency has repurchased a percentage of the guaranteed portion of the loan and either the secondary market or the lender still holds a percentage of the guaranteed portion of the loan, the Agency will continue to charge and collect the annual renewal fee. The Lender is required to pay the pro-rated share of fee based on the guaranteed portion held by the lender or the Secondary Market.

Example: When the Lender or secondary market holds 25 percent of the guaranteed portion of the loan and the Agency holds 75 percent, the Annual Renewal Fee for the lender will calculate as follows: Unpaid Principal Balance amount of \$100,000.00 times the percent of guarantee (80 percent), times the annual fee percentage (.25 percent), times the portion held by the Lender (25 percent) equals the Lender's Annual Fee due \$50.00.

The Guaranteed Loan System (GLS) is not set up to automatically prorate the annual renewal fee percent for those loans where the Agency holds a portion of the guarantee. The Finance Office must manually adjust the annual fee percent until such time GLS is enhanced.

We appreciate your efforts in servicing B&I and Rural Energy for America Programs loans. If you have any question, please contact B&I Servicing at (202) 690-4103.

***(Signed by John C. Padalino)***

John C. Padalino  
Acting Administrator  
Rural Business-Cooperative Service