

UNNUMBERED LETTERS ISSUED FOR THE JUNE OF 2011

Dated	Subject	Distribution
06-02-11	Memorandum of Understanding with Habitat for Humanity International for Packaging Direct Loan Applications	S/D
06-03-11	Section 9007, Rural Energy for America Program Program Guidance for Fiscal Year 2011	S/D
06-06-11	Payment in full of Community Facilities Direct Loan and Pre-authorized Debit Termination	S/D
06-09-11	State Office Monitoring of Staff Performing Multiple Sensitive Loan Making Functions – Single Family Housing Direct	S/D
06-09-11	Use of the Systematic Alien Verification for Entitlements database for Farm Labor Housing programs	S/D
06-13-11	Business and Industry Guaranteed Loan, Rural Energy for America, and Biorefinery Assistance Programs New Market Tax Credit Program	S/D
06-14-11	Cancellation of the <i>Federal Register</i> Subscriptions	S/D
06-14-11	Interest Rate Changes for Water and Waste Disposal Loans	S/D, AD, RDM
06-17-11	Interest Rate Changes for Community Facilities	S/D, AD, RDM
06-21-11	Guidance on Servicing Issues Related to Multi-Family Housing Preservation and Revitalization Program Transactions	S/D
06-21-11	Interest Rate Changes for Housing Programs and Credit Sales (Nonprogram)	S/D, AD, RDM
06-23-11	Improper Payment Information Act Compliance Report Section 521 - Rental Assistance Program	S/D
06-27-11	Section 502 Direct Loan Data Check Report	S/D

Dated	Subject	Distribution
06-28-11	Interest Rate Changes for Business and Industry Loans	S/D, AD, RDM
06-29-11	Rural Economic Development Loan and Grant Program Projects Funded for Third Quarter, Fiscal Year 2011	S/D
06-30-11	Leveraging the New Market Tax Credits Program with the Community Facilities Loan Programs	S/D

June 2, 2011

TO: All State Directors  
Rural Development

ATTN: Single Family Housing Program Directors

FROM: Chad Parker /s/ Chad Parker  
Acting Deputy Administrator  
Single Family Housing

SUBJECT: Memorandum of Understanding with Habitat for Humanity International  
for Packaging Direct Loan Applications

The primary purpose of this Memorandum of Understanding (MOU) is to establish a strategic alliance between the Agency and Habitat for Humanity International (HFHI) for the purpose of implementing a Section 502 direct loan application packaging arrangement between the two parties to improve access to Agency financing for eligible HFHI program participants. A secondary objective involves a packaging arrangement for Section 504 direct loan applications.

The MOU has an effective date of January 13, 2011; though the fully signed MOU wasn't received from HFHI until late March. A copy of the MOU can be found in the SharePoint website using the following path: Rural Development Share Point Sites > Team RD > Housing & Community Facilities Programs > Single Family Housing > Direct Program Information > MOU USDA-HFHI.

In the MOU, Habitat members were instructed to contact the Housing Program Director in their Rural Development State Office to initiate the packaging arrangement and discuss logistics to implementing the MOU at the state level.

We believe that an arrangement where we finance the purchase of a newly built dwelling using the guidance in Handbook-1-3550, Chapter 6, Paragraph 6.7 B will result in efficiencies for all parties. This is a recommendation only; you and your local Habitat member may decide to follow the new construction requirements contained in RD Instruction 1924-A or some other variation.

EXPIRATION DATE:  
May 31, 2012

FILING INSTRUCTIONS:  
Housing Programs

Regardless of the agreed upon arrangement, the Agency intends to acknowledge any sweat equity contributed by the borrower, their family, and/or volunteers via the HFHI program. On Form RD 3550-12, "Subsidy Repayment Agreement", the market value will be the appraised value (similar to Self-Help transactions). You will, of course, still subtract all liens and affordable housing products from the appraised value to arrive at the original equity.

If you have any questions regarding this memorandum, please contact Brooke Baumann of the Single Family Housing Direct Loan Division at (202) 690-4250.

If you would like to communicate with your counterparts from other states that have been working with HFHI in this capacity, you should reach out to the Housing Program Director in Colorado, Florida, Michigan, and/or Washington.

Sent by Electronic Mail on June 2, 2011 at 1:50 p.m. by Single Family Housing, Direct Loan Division. The State Director should advise other personnel as appropriate.

June 3, 2011

TO: State Directors, Rural Development

ATTN: Business Programs Directors  
Energy Coordinators

SUBJECT: Section 9007, Rural Energy for America Program  
Program Guidance for Fiscal Year 2011

The purpose of this Unnumbered Letter (UL) is to provide guidance for receiving and processing Rural Energy for America Program (REAP) loan and grant application requests. The following notes the process for Fiscal Year (FY) 2011 program delivery:

**I. State Allocations**

REAP funds are being allocated to States. The total amount of appropriated and carry over funds for FY 2011 is \$71,727,021 in mandatory, and \$4.99 million in discretionary. The following chart identifies the allocations for FY 2011. Funds will be allocated to the States following the methodology and formula stated in RD Instruction 1940-L, section 1940.588, presented as budget authority and program level. The State allocations of loan, grant, and grants of \$20,000 or less are provided in Exhibit A. The Exhibit also reflects the revised REAP goal amounts on grants of \$20,000 or less for FY 2011.

REAP Allocation

Energy Audit & REDA	\$ 2,800,000
Feasibility Study	\$ 2,000,000
Grants of \$20,000 or less	\$15,006,396
State Allocation	\$44,131,946
National Office REAP Reserve	\$12,787,076
Total	\$76,725,418

EXPIRATION DATE:  
May 31, 2012

FILING INSTRUCTIONS:  
Community/Business Programs

The State allocation only represents mandatory funding. A base allocation of \$50,000 was used to determine the State loan and grant allocation and \$20,000 was used for the grant allocation of \$20,000 or less.

The grant funds for energy audits and renewable energy development assistance, and feasibility studies will not be allocated to the States. See section IV of this unnumbered letter for further guidance.

The funds will be allocated to each State through the Program Funds Control System (PFCS). Please note the following:

- A. Grants of \$20,000 or less will have separate accounts in PFCS and Type of Assistance Codes (Exhibit B).
- B. Mandatory funds and funds for grants of \$20,000 or less will be processed through the Commercial Loan Servicing System (CLSS) which was formerly named Rural Utilities Loan Servicing System (RULSS).
- C. State Offices must rank all applications received for Fiscal Year 2011 funding after June 15, 2011 as follows:
  1. States have been allocated funds for grant applications of \$20,000 or less which must compete by priority score. The grant funds for \$20,000 or less must be obligated by **June 30, 2011**, or they will revert back to the REAP National Office Reserve. (For the purposes of this letter, once the debit for obligation is reflected in the PFCS account, the funds are considered obligated.)
  2. Loan only applications must compete for State Office funds by priority score. Combination guaranteed/grant applications will initially compete with grant only applications by grant priority score. If the score is sufficient to award funds, then the loan must compete by priority score.
- D. State Directors may assign administrative points if the application is for an under-represented technology, flexible fuel pumps, or will achieve geographic diversity on applications funded with their State Allocation.
- E. If State allocation is not sufficient to fund the total amount of the request, the applicant must be notified to accept the remaining funds or submit the total request for National Office reserve funds. Partial funding from the State's allocation and the National Office will not be accepted this fiscal year.
- F. If one or more applications have the same score and remaining funds in the State allocation are insufficient to fully award them all, the remaining funds must be divided proportionally between the applications. Applicants must be contacted and respond in writing, accepting the funds and indicate the project can be completed at the reduced funding amount.
  1. If the applicant chooses to take the proportional amount, they cannot compete for National Office funding.
  2. If an applicant declines the amount offered, those funds can be offered to the other applicants.

3. Applicants that decline partial funding may have their full request submitted to the National Office for reserve funds.
- G. Applications that cannot be funded with the State Allocation must remove State Director points from GLS, adjust total points, and update the status code to 216 “National Office for Funding”.

## **II. National Office REAP Reserve for Loans, Grants, and Loan/Grant Combinations**

All applications must be competitively selected and the highest priority projects funded with State allocations to the extent possible. National Office REAP reserve funds will be made available to States after August 1, 2011, under the following process:

- A. A Guaranteed Loan System (GLS) report will be generated for all applications not funded by the State’s allocation with a status code of 216.
- B. Information regarding projected energy saved or generated, payback period (at this time a whole number is only allowed, round down), small businesses assisted or farmers assisted, jobs created and saved, priority score (base and technical), leveraged funds, and the technology must be completed in GLS and will be verified by National Office. *If this information is not entered in GLS, the application will not be considered for funding.*
- C. If the application is submitted to the National Office for funding, the Administrator will determine the priorities for Administrator Points. State Directors may provide justification for Administrator points.
- D. The States will be notified of the applications that received Administrator Points.
- E. Based on priority score and availability of funds in the National Office reserve, applications will be selected for further funding consideration. The National Office will select applications in excess of funds available to allow for scoring adjustments based on National Office review. Grant and combo applications will initially compete using the grant score. If the grant score is sufficient to award funds, then the loan must compete by priority score.
- F. The National Office will advise the State Office of applications selected for funding consideration. The State will be required to submit the following documents into SharePoint:
  1. The priority score sheet with sufficient narrative justification for the score assigned. Projects with priority score sheets that lack sufficient documentation to determine if the score assigned was accurate will be returned to the State to provide additional information and funding will be held until the additional information is received. This will have an adverse affect on the funding package and the obligation of funds. Examples of insufficient documentation are points given without any justification. The documentation must consist of how the

points were determined such as calculation; sections of the work plan explaining the project, etc.; and

2. An electronic Legislative and Public Affairs Staff (LAPAS) Project Selection Information sheet which has been updated to include program specific data. Please work with the State Public Information Coordinator to ensure proper formatting before submitting to the National Office.
- G. If applications have the same score, and remaining funds in the National Office Reserve are not sufficient to award all, the Agency will determine if feasible to compete the remaining funds.

### **III. Flexible Fuel Pump**

If the project is for a flexible fuel pump(s), the following information must be completed in GLS:

- A. On the BP Facility/Project Information screen under the Project Information section, the name should be “Flexible Fuel Pump” (FFP).
- B. The field labeled “This Project is\*” the user should select “Other” and in the description box put FFP and the number of pumps being installed.
- C. The Energy Type field should be “Flexible Fuel Pump” (new addition to this table).
- D. The Energy Subcategory must be “FFP Pump Only” or “FFP Pump and tank” (new additions to this table.)

### **IV. Pooling of funds**

All funds for grants of \$20,000 or less not obligated by close of business on June 30, 2011, will be pooled. All other allocated REAP grant and loan funds not obligated by the close of business July 29, 2011, will be pooled. Guaranteed loan only applications will compete for the guaranteed loan funds available in the reserve before the Agency will utilize remaining budget authority to fund additional grant only and grant and guaranteed loan combination applications in the National competition.

Any funds that are deobligated after the pooling date will revert to the National Office REAP reserve. States are to immediately notify the National Office of any deobligations by sending a copy of Form RD 1940-10, “Cancellation of U. S. Treasury Check and/or Obligation”, to the National Office Energy Division, Attention: Diane Berger, at [Diane.Berger@wdc.usda.gov](mailto:Diane.Berger@wdc.usda.gov) with a copy to Tony Ashby at [Anthony.Ashby@wdc.usda.gov](mailto:Anthony.Ashby@wdc.usda.gov).

De-obligation of funds for mandatory grants must be processed by the Direct Loan and Grant Division in St. Louis. The Form RD 1940-10 must have the Tax Identification Number (ID) removed on the copy and put the system generated borrower ID number on the top, scan and e-mail it to [RD.DCFO.CPU@stl.usda.gov](mailto:RD.DCFO.CPU@stl.usda.gov).

V. **National Office REAP Reserve for Feasibility Studies and Energy Audits and Renewable Energy Development Assistance**

A. **Feasibility Study**

The National Office has set-aside \$2,000,000 for FY 2011 for grants to agricultural producers or rural small businesses to conduct feasibility studies for projects eligible for REAP financing. All applications are due in the State Offices by June 30, 2011, and must be submitted to the National Office by close of business on July 29, 2011. A GLS report will be generated for all applications with a status code of 216. Information regarding projected generation, payback period (at this time only a whole number is allowed, round down), small businesses assisted or farmers assisted, jobs created and saved, priority score, leveraged funds, and the technology must be completed in GLS and will be verified by National Office. *If information is not entered in GLS, the state will be notified and the application will be held until the information is completed.* The National Office will review and prioritize all applications, and fund in priority score order. Any funds remaining after this process will revert to the National Office REAP reserve.

B. **Energy Audit and Renewable Energy Development Assistance**

The National Office has set-aside approximately \$2,800,000 for FY 2011 Energy Audits and Renewable Energy Development Assistance (EA/REDA) applications. Applications are due in the State Offices by June 30, 2011, and in the National Office by close of business on July 29, 2011. A GLS report will be pulled for all applications with a status code of 216. Information regarding projected savings, payback period (at this time only a whole number is allowed, round down), small businesses assisted or farmers assisted, jobs created and saved, priority score, and leveraged funds must be completed in GLS and will be verified by National Office. *If information is not entered in GLS, the state will be notified and the application will be held until the information is completed.* The National Office will review and prioritize all applications, and fund in priority score order.

C. **National Office Reserve Request**

The State Director or designee will submit EA/REDA and feasibility studies requests to the National Office with the following documents:

1. LAPAS Electronic Project Information sheet; and
2. Project Summary/checklist and Priority Score sheet with sufficient narrative justification for assigned score. Projects with priority score sheets that lack sufficient documentation to determine if the score assigned was accurate the score sheet will be returned to the State to provide additional information and funding will be held until the additional information is received. This will have an adverse affect on the funding package and the obligation of funds. Examples of insufficient documentation are points given for a score without any justification. The documentation must consist of how the points were determined such as calculations; sections of the work plan explaining the project (generation or replacement), etc.

All requests must be uploaded to SharePoint under the Energy Division to the appropriate State and folder. After the information is loaded to SharePoint, States need to e-mail Diane Berger, at [Diane.Berger@wdc.usda.gov](mailto:Diane.Berger@wdc.usda.gov), with a copy to Tony Ashby, at [Anthony.Ashby@wdc.usda.gov](mailto:Anthony.Ashby@wdc.usda.gov), stating the number of applications submitted to SharePoint. The National Office will check SharePoint and acknowledge the number of requests.

## **VI. File Labeling for National Office Submittal**

The electronic files must be labeled as follows:

- Use the State abbreviation as the first characters of the electronic file;
- The applicants name next, using last name if individual or the company name;
- C for RES/EEI combination, G for RES/EEI grant, L for RES/EEI guaranteed loan, FS for RES feasibility study grant, or EA for energy audit and renewable energy development assistance grant;
- Projsum for the project summary-checklist or other document reference as listed below; and

The following are examples of how files should be named:

DC Doe John C projsum.doc  
DC Energy Systems Inc L projsum.doc  
DC Doe John G Score (funding cycle date).xls  
DC Doe John FS LAPAS (funding cycle date).doc  
DC Reserve Funding Request (funding cycle date).xls  
DC Town of Energy EA projsum (funding cycle date).doc

**VII. Loan Approval Authority**

Each State will be delegated specific authority by memorandum signed by the Administrator. The State's delegated authority will be the same for both the REAP and Business and Industry programs. The delegated authority will remain in effect for one year or until the authority is otherwise rescinded by the National Office, whichever is less. All loan approval and servicing actions exceeding the delegated authority must be submitted to the National Office for concurrence prior to approval.

**VIII. Scoring and Technical**

Separate Administrative Notices will be published to provide clarification for scoring and guidance on Technical Reviews.

**VIX. De-obligation of FY 2006 Awards**

Please Note: Discretionary Funds obligated in FY 2006 and not advanced by September 30, 2011, will be de-obligated.

**X. Oversight**

The National Office will post review REAP projects using a risk-based approach by periodically selecting individual projects for review. When requested, the State Office will forward the following information to the National Office for each project selected, to the attention of the Energy Division.

**A. REAP guaranteed loans**

1. Copy of the Project Summary;
2. Copy of the State Loan Committee minutes;
3. Copy of the lender's credit analysis, including the pro forma balance sheet projected for loan closing, and spreads of historic and projected financial statements;
4. Copy of the technical report;
5. For existing businesses, a copy of the historic financial statements;
6. Summary pages of the appraisal report(s), including the qualifications of the appraiser and a copy of the desk or technical review by the State Review Appraiser, if applicable;
7. Copy of the Conditional Commitment; and
8. Copy of the proposed (or actual, if the loan is closed) Loan Agreement between the lender and the borrower.

**B. REAP grants**

1. Copy of the Scope of Work;
2. Copy of the Letter of Conditions;
3. Copy of the technical report;
4. Grant disbursement documentation, including all Forms SF 270, "Request for Advance or Reimbursement," received to date with supporting documentation; and
5. Evidence of grant monitoring, including all Forms SF 425, "Federal Financial Report," and SF 425A, "Federal Financial Report Attachment," received to date.

**C. REAP loan/grant combinations**

Documentation requested for both loans and grants.

If you have any questions, please contact the Energy Division at (202) 720-1400.

*(Signed by Judith A. Canales)*

JUDITH A. CANALES  
Administrator  
Business and Cooperative Programs

Attachments:

Exhibit A – Mandatory Rural Energy for America Program FY 2010 State Allocations  
Exhibit B - Type of Assistance Codes

EXHIBIT A  
 REAP Funds  
 Page 1

<i>State</i>	Grant Only greater than \$20,000	Guaranteed Program Level	Grants of \$20,000 or less
Alabama	\$761,422.00	\$1,579,000.00	\$477,045.00
Alaska	\$166,327.00	\$300,000.00	\$94,733.00
Arizona	\$317,970.00	\$626,000.00	\$192,154.00
Arkansas	\$532,408.00	\$1,087,000.00	\$329,918.00
California	\$697,990.00	\$1,443,000.00	\$436,293.00
Colorado	\$256,483.00	\$493,000.00	\$152,653.00
Delaware	\$99,539.00	\$156,000.00	\$51,825.00
Maryland	\$244,702.00	\$468,000.00	\$145,084.00
Florida	\$577,998.00	\$1,185,000.00	\$359,206.00
Virgin Islands	\$50,000.00	\$100,000.00	\$20,000.00
Georgia	\$881,001.00	\$1,836,000.00	\$553,867.00
Hawaii	\$115,156.00	\$190,000.00	\$61,859.00
W. Pacific Areas	\$50,000.00	\$100,000.00	\$20,000.00
Idaho	\$242,861.00	\$464,000.00	\$143,901.00
Illinois	\$558,335.00	\$1,142,000.00	\$346,574.00
Indiana	\$569,109.00	\$1,166,000.00	\$353,496.00
Iowa	\$413,533.00	\$831,000.00	\$253,548.00
Kansas	\$301,563.00	\$590,000.00	\$181,614.00
Kentucky	\$805,801.00	\$1,674,000.00	\$505,556.00
Louisiana	\$547,297.00	\$1,119,000.00	\$339,483.00
Maine	\$305,622.00	\$599,000.00	\$184,221.00
Massachusetts	\$180,390.00	\$330,000.00	\$103,767.00
Connecticut	\$143,024.00	\$250,000.00	\$79,762.00
Rhode Island	\$74,472.00	\$102,000.00	\$35,721.00
Michigan	\$803,143.00	\$1,669,000.00	\$503,848.00
Minnesota	\$475,111.00	\$963,000.00	\$293,107.00
Mississippi	\$707,318.00	\$1,463,000.00	\$442,287.00
Missouri	\$646,555.00	\$1,332,000.00	\$403,250.00
Montana	\$227,351.00	\$431,000.00	\$133,937.00
Nebraska	\$216,673.00	\$408,000.00	\$127,077.00
Nevada	\$115,722.00	\$191,000.00	\$62,222.00
New Jersey	\$189,125.00	\$349,000.00	\$109,379.00
New Mexico	\$304,287.00	\$596,000.00	\$183,363.00
New York	\$760,737.00	\$1,578,000.00	\$476,604.00
North Carolina	\$1,057,100.00	\$2,215,000.00	\$667,000.00
North Dakota	\$149,951.00	\$264,000.00	\$84,212.00

EXHIBIT A  
REAP Funds  
Page 2

Ohio	\$816,681.00	\$1,698,000.00	\$512,545.00
Oklahoma	\$496,022.00	\$1,008,000.00	\$306,542.00
Oregon	\$340,466.00	\$674,000.00	\$206,606.00
Pennsylvania	\$869,720.00	\$1,812,000.00	\$546,620.00
Puerto Rico	\$341,926.00	\$677,000.00	\$207,544.00
South Carolina	\$615,705.00	\$1,266,000.00	\$383,430.00
South Dakota	\$186,599.00	\$343,000.00	\$107,756.00
Tennessee	\$767,527.00	\$1,592,000.00	\$480,967.00
Texas	\$1,057,100.00	\$2,215,000.00	\$667,000.00
Utah	\$160,410.00	\$287,000.00	\$90,931.00
Vermont	\$169,473.00	\$306,000.00	\$96,754.00
New Hampshire	\$185,955.00	\$342,000.00	\$107,343.00
Virginia	\$641,901.00	\$1,322,000.00	\$400,260.00
Washington	\$446,706.00	\$902,000.00	\$274,859.00
West Virginia	\$475,957.00	\$965,000.00	\$293,651.00
Wisconsin	\$547,920.00	\$1,120,000.00	\$339,883.00
Wyoming	\$125,831.00	\$213,000.00	\$68,717.00
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Totals	\$22,791,975.00	\$46,031,000.00	\$13,999,974.00

**Exhibit B**  
**Type of Assistance Codes**

**Discretionary Funding**

Type of Assistance Code	Program Description
357	Renewable Energy Systems – Guaranteed Loan Only
358	Renewable Energy Systems Grant
360	Renewable Energy Systems – Combination Guaranteed Loan/Grant
369	Energy Efficiency Improvements Program – Guaranteed Loan
370	Energy Efficiency Improvement Grant
372	Energy Efficiency Improvement – Combo Guaranteed Loan/Grant
609	Feasibility Study
612	Grants of \$20,000 or less – Renewable Energy Systems
613	Grants of \$20,000 or less – Energy Efficiency Improvements

**Mandatory Funding**

Type of Assistance Code	Program Description
505	REAP Mandatory Feasibility Studies
506	Mandatory Energy Audit Grants
507	Mandatory Renewable energy Development Assistance Grants
508	REAP Mandatory Renewable Energy System Grants
509	REAP Mandatory Renewable Energy Systems Guaranteed Loans
510	REAP Mandatory Renewable Energy System Combination Guaranteed Loan/Grant
511	REAP Mandatory Energy Efficiency Improvement Grants
512	REAP Mandatory Energy Efficiency Improvement Guaranteed Loans
513	REAP Mandatory energy Efficiency Improvement Combination Guaranteed Loans/Grants
614	Grants of \$20,000 or less – Renewable Energy Systems
615	Grants of \$20,000 or less – Energy Efficiency Improvement

June 6, 2011

TO: All State Directors  
Rural Development

ATTN: Program Directors

FROM: Tammye Treviño *(Signed by Tammye Treviño)*  
Administrator  
Housing and Community Facilities Programs

SUBJECT: Payment in full of Community Facilities Direct Loan and Pre-authorized Debit termination

Several states have advised us that after Community Facilities loans are paid in full that the pre-authorized debit (PAD) payment is not cancelled and borrower's account continues to be debited.

The forms Manual Insert for Form RD 3550-28 does not expire and must be voided by written request of the borrower or an authorized official of Rural Development. To ensure that we do not withdraw funds after a loan is paid in full a memorandum should be prepared and faxed to the Finance Office to "CMB, Finance Office" using their fax number (314-457-4370).

Water and Environmental Programs posted a sample memo to cancel the PAD on the following website URL <https://rd.sc.egov.usda.gov/teamrd/UP/WEP/default.aspx> . You should use the link to WEP documents and open the sample letter. We recommend that you access ADPS to determine when the final payment is posted and then immediately send the memo to Finance Office to terminate the PAD payment.

EXPIRATION DATE:  
May 31, 2012

FILING INSTRUCTIONS:  
Community Programs

June 9, 2011

TO: All State Directors  
Rural Development

ATTN: Single Family Housing Program Directors

FROM: Chad Parker *(Signed by Chad Parker)*  
Acting Deputy Administrator  
Single Family Housing

SUBJECT: State Office Monitoring of Staff Performing Multiple Sensitive  
Loan Making Functions – Single Family Housing Direct

In Audit Report 04703-2-KC dated September 24, 2010, the Office of Inspector General (OIG) recommended that Rural Development develop procedures and controls to monitor the loan approval, obligation, and/or disbursement activities of those Rural Development staff members with elevated access; employees with Profile IDs 30136 or 31136. (For background information on elevated access, refer to Rural Development Share Point Sites > Team RD > Housing & Community Facilities Programs > Single Family Housing > Direct Program Information > Expired Guidance > MS access-separation of duties.)

In response to OIG's recommendation, a Single Family Housing Direct (SFHD) "Separation of Duties" Exception Report was recently put into production in the Rural Development data warehouse (DW). From the RDDW home page, the report can be found using the following path: Explore > Root > OIG – SFHD > OIG Separation of Duties Report. The exception report should be accessible to those who presently have access to the Program Funds Control System (PFCS) funding reports. If an additional State Office staff member needs access to the exception report, your state's Information Systems Security Staff (ISSS) Point of Contact (POC) will need to open a logbook ticket to request that the staff member be given access to the PFCS reports group for the RDDW.

Program Directors are responsible for reviewing the exception report on a quarterly basis; within two weeks of the end of each quarter. Although the first two quarters for FY 2011 are posted, the very first review should occur in the third quarter between July 1<sup>st</sup> and 12<sup>th</sup>. Program

EXPIRATION DATE:  
June 30, 2012

FILING INSTRUCTIONS:  
Housing Programs

Directors should look for signs of abuse of the elevated access by a particular staff member in light of your state's funding arrangements, a Servicing Office's level/number of personnel working in the direct program, and the presence of any special circumstances.

If a staff member is using their elevated access unnecessarily, the Program Director should counsel the staff member and/or have your state's ISSS POC open a logbook ticket to request that the staff member be given a lesser privilege.

In addition, Program Directors should pull at least two of the listed accounts as part of their quarterly analysis and perform a review using Chapter 6, Attachment 6-C, of HB 1-3550. Be sure to rotate through the elevated access users as the quarters go by. The State Office staff member who reviews the file cannot be the approver, obligator, and/or disbursing officer on the loan.

The completed reviews with any accompanying notes must be scanned and e-mailed to the National Office at [SFHDIRECTPROGRAM@wdc.usda.gov](mailto:SFHDIRECTPROGRAM@wdc.usda.gov) no later than 30 days from the end of each quarter. Please enter "Separation of Duties – Exception Report" in the email's subject line.

Please note that due to data pull issues, obligations and disbursements prior to October 1, 2010, will not appear on the report; the report will improve as time passes.

If you have any questions regarding this memorandum, please contact Brooke Baumann of the Single Family Housing Direct Loan Division at (202) 690-4250.

Sent by Electronic Mail on June 20, 2011 at 11:00 a.m. by the Single Family Housing Direct Loan Division. The State Director should advise other personnel as appropriate.

June 9, 2011

TO: State Directors  
Rural Development

ATTN: Program Directors  
Multi-Family Housing

FROM: Tammye Treviño (Signed by Tammye Treviño)  
Administrator  
Housing and Community Facilities Programs

SUBJECT: Use of the Systematic Alien Verification for Entitlements database for Farm  
Labor Housing programs

This Unnumbered Letter (UL) provides guidance on the use of the Systematic Alien Verification for Entitlements (SAVE) system for the Farm Labor Housing (FLH) programs.

Regulation 7 CFR Part 3560 requires that a domestic farm laborer be a person who, consistent with the requirements in §3560.576(b)(2), receives a substantial portion of his or her income from farm labor employment (not self-employed) in the United States, Puerto Rico, or the Virgin Islands and either is a citizen of the United States or resides in the United States, Puerto Rico or the Virgin Islands after being legally admitted for permanent residence.

The Government Accountability Office (GAO) recently completed audit no. GAO-11-329 entitled, "Opportunities Exist to Strengthen Farm Labor Housing Program Management and Oversight," that identified that the Agency and the borrowers were not consistently verifying farm labor tenant's citizenship. Therefore, GAO recommended that Multi-Family Housing begin using the SAVE database that has been established by the U.S. Citizenship and Immigration Services (USCIS) when verifying tenant citizenship or residence status in the FLH program.

The SAVE database is a system for verifying the immigration status of non-citizen applicants for, and recipients of, certain types of federally funded benefits, and to make the system available to Federal, State and local benefit-issuing agencies and institutions that administer such benefits. Rural Development currently utilizes the SAVE system for the Single Family Housing programs.

In order to address GAO's finding, and ensure consistent verification of citizenship/residence status, Loan Servicers servicing the FLH program must start utilizing the SAVE database when conducting the triennial supervisory visits and document files in which the review has been completed. Loan Servicers should refer to HB-1-3550, Chapter 4, Attachment 4-D for details on accessing the SAVE system.

EXPIRATION DATE:  
June 30, 2012

FILING INSTRUCTIONS:  
Housing Programs

Loan Servicers must contact their FLH borrowers who are State or local agencies that are eligible to utilize the SAVE database and inform them that if they are currently not using the SAVE system, they are to begin utilizing the system. Information regarding the SAVE system is available at <http://www.uscis.gov/>, search “Systematic Alien Verification for Entitlements”. Please note there is a cost associated with accessing the database and that the cost is an eligible project expense. For FLH borrowers not eligible to access the SAVE system, the FLH borrowers should contact their local MFH loan servicer in order to verify tenant’s immigration status.

If you have any questions regarding this UL, please contact your Portfolio Management Analyst or Janet Stouder of the Multi-Family Housing Portfolio Management Division at (202) 720-9728.

June 13, 2011

TO: State Directors, Rural Development

ATTN: Business Programs Directors

SUBJECT: Business and Industry Guaranteed Loan,  
Rural Energy for America, and  
Biorefinery Assistance Programs  
New Market Tax Credit Program

**PURPOSE/INTENDED OUTCOME:**

The purpose of this Unnumbered Letter (UL) is to provide guidance and clarification concerning the Agency's policy on using the New Market Tax Credit (NMTC) program with the Business and Industry (B&I) Guaranteed Loan Program, the Rural Energy for America Program (REAP), or the Biorefinery Assistance Program (BAP). For purposes of this UL, REAP and BAP may collectively be referred to as "Energy".

**BACKGROUND:**

The NMTC program was authorized by Congress as part of the Community Renewal Tax Relief Act of 2000. The main purpose of the NMTC program is to help revitalize low-income impoverished communities across the United States.

The Department of Treasury created the Community Development Financial Institution (CDFI) fund. This fund designates eligible Community Development Entities (CDEs). Investors make an equity investment in an eligible CDE, which in return qualifies for Federal income tax credits. The credit totals 39 percent of the qualified equity investment and is claimed over a 7-year credit allowance period.

After the CDFI fund designates a CDE, the CDE has 5 years to raise Quality Equity Investments (QEIs) from its investors. After receiving QEIs, the CDE has 12 months to place the QEIs into Qualified Low Income Community Investments (QLICIs). This can be accomplished through the following actions: (1) loans to, or investments in, qualified active low-income community businesses (QALICB); (2) loans to, or investments in, other CDEs; (3) the purchase of qualifying loans originated by other CDEs or other loans that qualify as a QLICI; and (4) counseling to low-income community businesses.

EXPIRATION DATE:  
June 30, 2012

FILING INSTRUCTIONS:  
Community/Business Programs

The NMTC program serves a common purpose with the B&I and Energy guaranteed loan programs of improving access to capital for communities that have traditionally had inadequate access. The NMTC program, with its capital contributions through investors and leveraged funds, can be used to leverage the B&I or Energy guaranteed loan programs for loans to qualifying businesses.

The NMTC program could possibly be used with B&I and REAP guaranteed loans using, but not limited to, one of two basic models: (1) the CDE purchasing or participating in a guaranteed loan; and (2) the CDE or its subsidiary becoming a non-traditional lender. The NMTC program could possibly be used with BAP guaranteed loans by the CDE purchasing or participating in a guaranteed loan (model #1).

### **Discussion on Project Proposals Utilizing NMTC Program Structures**

#### **Model #1: Holder/Participation Model**

The CDE can become the holder/participating lender of the guarantee through: (1) a sale of the Loan Note Guarantee; (2) purchasing a participation in the loan; or (3) the purchase of the Loan Note Guarantee and participation in the non-guaranteed portion of the loan. All program rules relating to participation or sale to a holder must be followed. This approach may provide more favorable interest rates to the borrower.

#### **Model #2: Non-Traditional Lender Model**

As background, a lender's subsidiary may apply for the B&I and REAP programs either by independently qualifying as a lender under the applicable subsection of RD Instruction 4279-A, section 4279.29, or the subsidiary's parent must qualify accordingly and request the subsidiary, under its control, also be approved under the appropriate subsection. In the case of the latter, the subsidiary does not need to meet the requirements of RD Instruction 4279-A, section 4279.29 separate from its parent. The control structure needs to be clearly defined in advance through a management agreement and a copy of the agreement must be provided to the Agency with the request for approval as a lender.

Approved non-traditional lenders may subsequently request approval of their subsidiaries in accordance with RD Instruction 4279-A, section 4279.29(b). In such cases, additional information submitted shall include the parent's current balance sheet (not more than 1 year old, an in-house financial statement is acceptable), commercial loan portfolio information in accordance with RD Instruction 4279-A, section 4279.29(b)(2)(iii), any changes to its license or charter since its initial submission, changes to its staff since its initial submission and updates on their commercial lending experience, license or charter of the subsidiary or its evidence of authority to engage in the proposed loan making and servicing activities, in accordance with section 4279.29(b)(2)(ii), and a copy of the control agreement.

A CDE is permitted to make loans and can apply to become a non-traditional lender under the B&I and REAP guaranteed loan programs in accordance with RD Instruction 4279-A, section 4279.29. CDEs that have been previously approved as B&I and REAP non-traditional lenders may submit a request for approval of sub-CDEs under their control. Normally, a CDE creates a special purpose sub-CDE for each NMTC program loan or set of loans. The NMTC program investor owns the majority (99.99 percent) of the sub-CDE through its Qualified Equity New Investment (QEI). The CDE has a minority (0.01 percent) ownership interest in the sub-CDE and is the managing member, managing partner, or controlling stockholder and controls the sub-CDE through a management agreement. In this case, the sub-CDE can apply to become a non-traditional lender in accordance with the subsidiary provisions just discussed.

The primary concern with a CDE or sub-CDE in this instance is that the NMTC program is a 7-year program, at the end of which the NMTC investor will exit. Therefore, the request for approval of the CDE or sub-CDE as a B&I non-traditional lender must also include their NMTC program exit strategy. In the case of a sub-CDE, the exit strategy should indicate if the sub-CDE will continue with the CDE as its sole member, partner, or stockholder after the exit of the NMTC investor or if the sub-CDE will collapse into the CDE with a substitution of lenders.

### **Other Models**

The NMTC program could possibly be used with B&I and Energy guaranteed loans using other structures not addressed herein. If the structure of the proposal involves the B&I guaranteed loan “taking out” the interim construction loan outside of the NMTC structure or the borrower investing in the CDE’s NMTC, then provisions of RD Instruction 4279-B, sections 4279.113 and 4279.114 apply.

### **Discussion on General B&I Guaranteed Loan and Energy Guaranteed Loan and NMTC Program Issues**

#### **Loan Terms**

Throughout the 7-year investment period, the CDE must ensure that substantially all (at least 85 percent during the first 6 years, reduced to 75 percent in year 7) of the QEI is deployed in one or more NMTC eligible loans or investments. CDEs that are NMTC lenders typically structure their loans with 7-year interest only terms, with a balloon payment at the end of the 7-year investment period. This loan structure is not eligible under RD Instruction 4279-B, section 4279.126(b) and (c), or Energy programs which cross-reference to section 4279.126(c).

However, the B&I program and BAP permit interest only payments for a period not to exceed 3 years, in compliance with RD Instruction 4279-B, section 4279.126(b). The REAP program RD Instruction 4280-B, section 4280.126(b), requires “the first installment of principal and

interest will, if possible, be scheduled for payment after the project is operational and has begun to generate income.” RD Instruction 4279-B, section 4279.126(c), applies to B&I and Energy guaranteed loans and requires a periodic payment schedule which will retire the debt over the term of the loan without a balloon payment. CDE payment schedules must comply with these requirements to be eligible for the B&I or Energy programs.

### **Subordinated Debt/Quasi-Equity**

As noted above, NMTC QEI funds may be used by the CDE to make loans to qualifying businesses or to make equity investments in qualifying businesses. NMTC program loans to a qualifying business must be considered as debt on the borrower’s balance sheet in accordance with Generally Accepted Accounting Principles. The Treasury Department NMTC program regulations do not allow the CDE, at the time of approving their loan(s), to commit to forgive the loan or convert loans to equity at a later date. NMTC program project proposals include a “double-borrower” model in which the CDE’s NMTC funds are lent to the QALICB (e.g. a real estate holding company) and the QALICB provides the funds as equity into the project (e.g. an operating company). If the two entities are variable interest entities, their financial statements might need to be consolidated or combined for our analysis. Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards 167, amendment to FASB Interpretation No. 46, provides guidance in accordance with accounting standards.

### **Equity**

If the CDE uses the QEI funds to make an equity investment in the qualifying business (partial ownership), the CDE or sub-CDE is ineligible to directly partake in Model #1. RD Instruction 4279-A, section 4279.75, prohibits a B&I or Energy lender from selling or participating in any amount of the guaranteed or unguaranteed portion of the loan to the borrower or members of the borrower's immediate families, officers, directors, stockholders, other owners, or a parent, subsidiary, or affiliate.

Likewise you should be attentive to potential problems under Model #2 because RD Instruction 4279-B, section 4279.181(n), prohibits the lender from having a substantial financial interest in the borrower.

The Office of the General Counsel Regional Attorney is available to review any issues or questions that involve the NMTC program for legal compliance and sufficiency. It is the responsibility of the State Office to review the documents for program compliance.

The NMTC program is evolving and additional loan structures may be proposed and may be considered for use with the B&I and REAP programs.

Questions regarding specific B&I loan applications or proposals and models being used, deviations from these models, funds flow, and equity should be presented to and discussed with

the B&I Division and Energy applications with the Energy Division.

If you have any general questions regarding this UL and the NMTC program, please contact Mark Brodziski, Specialty Programs Division, at (202) 720-1394. For questions regarding specific project proposals, please contact Todd Hubbell, Loan Specialist, B&I Division, at (202) 690-4103, or Lisa Siesennop, Loan Specialist, Energy Division, at (202) 720-1400.

*(Signed by Judith A. Canales)*

JUDITH A. CANALES  
Administrator  
Business and Cooperative Programs

June 14, 2011

TO: National Office Officials  
State Directors

FROM: Clyde Thompson /s/*Clyde Thompson*  
Deputy Administrator  
Operations and Management

SUBJECT: Cancellation of the *Federal Register* Subscriptions

As you may know, the Securing Americans' Value and Efficiency (SAVE) Award is an Administration initiative seeking cost-cutting recommendations from Federal employees to make government more effective and efficient while ensuring taxpayer dollars are spent wisely. On November 15, 2010, the Office of Management and Budget announced this year's SAVE Award winning recommendation: End the Mailing of the *Federal Register* to Federal Government Offices. In keeping with this initiative, attached is a memorandum from the Department's Deputy Director of the Budget, Legislative, and Regulatory Systems, dated May 5, 2011, entitled the same as the subject. This memorandum requests that all agencies within USDA cancel all *Federal Register* subscriptions.

The *Federal Register* is available online. You can access the current day's release or you can research through past years as far back as 1994. The following links are available:

- To access the current day's release, please use the following link:  
<http://www.gpo.gov/fdsys/search/getfrtoc.action>.
- To access past releases, please use the following link:  
<http://www.gpo.gov/fdsys/browse/collection.action?collectionCode=FR>.

To make this process smoother, the Rural Development (RD) Regulations and Guidance Webpage has links that lists all of the publications for RD for the current fiscal year. The Federal Registers can be found at <http://www.rurdev.usda.gov/RegulationsAndGuidance.html>.

EXPIRATION DATE:  
June 30, 2012

FILING INSTRUCTIONS:  
Administrative/Other Programs

The subscription for the *Federal Register* will be cancelled effective June 15, 2011. I want to thank you in advance for your understanding and commitment to help RD in this effort to conserve funds as well as the environment. If you have any questions or concerns regarding this issue, please feel free to contact Jeanne Jacobs, Chief, Regulations and Paperwork Management Branch, via phone at 202-692-0040 or via email at [jeanne.jacobs@wdc.usda.gov](mailto:jeanne.jacobs@wdc.usda.gov).


Attachment

Sent by Electronic Mail on 6/15/11 at 4:00 p.m. by Support Services Division. National Office Officials and State Directors should advise other personnel as appropriate.



MAY - 4 2011

**TO:** Agency Regulatory Contacts

**FROM:** Diem-Linh Jones   
Deputy Director  
Budget, Legislative and Regulatory Systems

**SUBJECT:** Cancellation of Federal Register Subscriptions

As you may know, the Securing Americans' Value and Efficiency (SAVE) Award is an Administration initiative seeking cost-cutting recommendations from Federal employees to make government more effective and efficient while ensuring taxpayer dollars are spent wisely. On November 15, 2010, the Office of Management and Budget announced this year's SAVE Award winner—End the Mailing of the *Federal Register* to Federal Government Offices.

The *Federal Register* is easily accessible on-line via the Internet. However, as of the end of FY 2010, government offices held over 4,700 subscriptions for print versions of the *Federal Register*, resulting in unnecessary printing and postage costs. The proposed government-wide cancellation of these subscriptions in the SAVE Award recommendation is expected to save taxpayers \$4 million or more annually.

Agencies are asked to use the attached form letter to communicate the cancellation of their subscriptions of the *Federal Register* to the Office of the Federal Register by May 13, 2011. Please send a copy of the completed form on official agency letterhead in PDF format to Karen Allen of the Office of the Federal Register at [karen.allen@nara.gov](mailto:karen.allen@nara.gov) with a cc to Julie Hetrick in the Office of Budget and Program Analysis at [jmh@obpa.usda.gov](mailto:jmh@obpa.usda.gov). If your Agency no longer uses paper copies from the Federal Register, please send a negative impact e-mail reply to Julie.

Going forward, Federal agencies and their employees should access the official online edition of the Federal Register on FDSys at [www.gpo.gov/fdsys](http://www.gpo.gov/fdsys). An informational edition of the Federal Register is also available at [www.federalregister.gov](http://www.federalregister.gov).

Please contact Julie if any other assistance is needed (202-720-1269).

cc: Assistant Secretary Reed  
Agency Heads

Attachment

June 14, 2011

TO: State Directors  
Area Directors  
Rural Development Managers

ATTN: Utilities Program Directors

FROM: Jonathan Adelstein *(Signed by Jonathan Adelstein)*  
Administrator  
Rural Utilities Service

SUBJECT: Interest Rate Changes for Water and Waste Disposal Loans

Language in the Consolidated Farm and Rural Development Act requires that the poverty rate and the intermediate rate be determined based on the approval date of the loan. For those loans approved on or after May 23, 2008, the poverty rate will be set at 60 percent of the market rate and the intermediate rate set at 80 percent of the market rate, adjusted to the nearest one-eighth of one percent. Following are the new interest rates for water and waste disposal loans approved on or after May 23, 2008:

Poverty Line...decreased to.....2.500%  
Intermediate...decreased to.....3.375%  
Market.....decreased to.....4.250%

For loans approved but not closed on or before May 22, 2008, the poverty rate will remain fixed at 4.500 percent and the intermediate rate will continue to be set at one-half of the difference between the poverty line rate and the market rate. Following are the new interest rates for water and waste disposal loans approved on or before May 22, 2008:

Poverty Line...unchanged at.....4.500%  
Intermediate...decreased to.....4.375%  
Market.....decreased to.....4.250%

EXPIRATION DATE:  
September 30, 2011

FILING INSTRUCTIONS:  
Administrative/Other Programs

For this quarter, all loans approved or obligated before May 22, 2008 may be obligated at the lower market rate. These rates will be effective from July 1, 2011, through September 30, 2011.

**Also, the rate for watershed protection and flood prevention loans and resource conservation and development loans is as follows:**

CURRENT RATE	NEW RATE
4.750%	4.250%

Please notify appropriate personnel of these rates.

Sent by Electronic Mail on 6/17/2011, at 9:00 am by Program Analysis Division. State Directors should advise other personnel as appropriate.

June 17, 2011

TO: State Directors  
Area Directors  
Rural Development Managers

ATTN: Community Facilities Program Directors

FROM: Tammye Treviño (Signed by Tammye Treviño )  
Administrator  
Housing and Community Facilities Programs

SUBJECT: Interest Rate Changes for Community Facilities

Effective from July 1, 2011, through September 30, 2011, the interest rates for direct community facility loans are as follows:

Poverty Line...unchanged at.....4.500%  
Intermediate...decreased to.....4.375%  
Market.....decreased to.....4.250%

For this quarter, all loans may be obligated at the lower market rate. Please notify appropriate personnel of these rates.

EXPIRATION DATE:  
September 30, 2011

FILING INSTRUCTIONS:  
Administrative/Other Programs

Sent by Electronic Mail on 06/17/2011, at 9:00 am by Program Analysis Division. State Directors should advise other personnel as appropriate.

June 21, 2011

TO: State Directors  
Rural Development

ATTN: Program Directors  
Multi-Family Housing

FROM: Tammy Treviño  
Administrator  
Housing and Community Facilities Programs

SUBJECT: Guidance on Servicing Issues Related to Multi-Family Housing Preservation and Revitalization Program Transactions

The purpose of this Unnumbered Letter (UL) is to provide guidance in the routine servicing of closed Multi-Family Housing Preservation and Revitalization Program (MPR) projects. While the MPR remains a demonstration program, the overall servicing of MPR transactions is the same as for traditional Section 515 loans based on the existing regulations and regulatory agreements entered into by the owner. There are additional servicing responsibilities solely associated with MPR projects, which shall be discussed herein.

Enforcement of Borrower Requirements in the Conditional Commitment

Servicing Officials are responsible for servicing and monitoring the requirements of MPR projects as set forth in the Conditional Commitment and other governing documents. The Loan Servicing Matrix (see Attachment A) is being provided to aid Multi-Family Housing (MFH) loan servicers in distinguishing the different servicing and monitoring requirements that are exclusive to the MPR transactions that were obligated in Fiscal Year (FY) 2005 and FY 2006.

Until such time as the Agency has completed the Multi-Family Information System (MFIS) enhancements that will enable the tracking and monitoring of MPR projects, it is recommended that any project- or loan-specific requirements included in the Conditional Commitment be entered in the MFIS "Comments" tab under the Detail section.

EXPIRATION DATE:  
June 30, 2012

FILING INSTRUCTIONS:  
Housing Programs

## Post-Closing MPR Project Budgets

The conditional commitment requiring the borrower to submit a revised Form RD 3560-7, “*Multiple Family Housing Project Budget/Utility Allowance*”, as of the date of MPR closing must reflect the underwritten budget as approved by the Loan Committee and be in accordance with the borrower’s Conditional Commitment. For example, the initial post-MPR budget should show no Rural Development loan payment for the deferred loan. An operating cushion that is equal to 10 percent of Operating and Maintenance expenses should be input on Line 10 - Other Operating Expenses (Itemized), in Part II - Operating and Maintenance Expense Schedule. The 10 percent operating cushion is intended to serve as a “safety net” to fund unexpected, non-Capital Needs Assessment (CNA) related expenditures that are incurred by the project. When possible, the borrower should include the 10 percent cushion in subsequent proposed budgets. The 10 percent cushion should not force the project rents above acceptable market levels, or cause surplus funds in the year end unrestricted cash balance. The lead state underwriter and the lead servicing official should meet to discuss the budget approved with the transaction and the first revised budget submitted by the borrower.

The borrower will include the annual capital needs contained in the approved CNA in the Annual Capital Budget in Part V of Form RD 3560-7.

Outstanding cost items owed by the borrower should not be included in the initial post-closing operating budget. The cost item(s) should have been underwritten so that they are reamortized with the existing loan balance, or will be paid by the borrower prior to closing.

## Rent Increases

Underwritten “phased-in” rent increases will be implemented as approved by the Loan Committee and in accordance with the borrower’s Conditional Commitment. Routine subsequent rent increases for MPR projects will be budget-based, as is the case for non-MPR projects.

## Capital Needs Assessments (CNA)

The approved CNA serves as the basis for loan servicing as it pertains to budgeting for the property’s capital needs. The CNA is used as a tool to budget sufficient reserve account funds to meet the ongoing needs of the individual property. A CNA is not a formal repair and replacement schedule, and should not be used as such.

The Rural Development servicing official must track the progress of rehabilitation, repairs and expenditures as required by the CNA, as well as track the completion of work performed. The work must be performed in accordance with the approved CNA schedule for the full 20-year period. A CNA is considered to be “off-schedule” if there is more than a 25 percent change in a cost category or repair item, or if the repair schedule is outside of the CNA’s three year window of expectation. When this occurs, 1) determine the cause (price increases, non-performance, work done and paid for by other sources [for example, insurance proceeds]; and 2) require the

borrower to obtain an update to the CNA.

When updating a CNA, the borrower and the CNA Provider should review property changes (repairs, improvements, or failures), review costs and quantities, and submit a revised CNA to the Agency for approval.

Servicing officials will track the budgeting, funding and completion of capital budget expenditures using a spreadsheet specifically designed for this purpose. The National Office is providing the spreadsheet that was developed by Oklahoma's multi-family housing staff.

The spreadsheet, entitled "*CNA 20 year Tracking Tool.OK.8.2010.xls*," can be found on the Housing and Community Facilities SharePoint website under Multi-Family Housing Information using the following link:

<https://rd.sc.egov.usda.gov/teamrd/hcfp/mfh/MultiHousing%20Family%20Information/Forms/AllItems.aspx>.

Step-by-step instructions on how to use the CNA tracking spreadsheet are found within the spreadsheet on the first tab labeled "Instructions". MFH will soon issue a UL containing comprehensive guidance on CNAs.

#### Use of the Reserve Account

The use of reserve account funds for MPR projects is limited to actual costs of building system replacements and repairs that were included in the CNA used to determine the annual reserve account deposit amount. MPR project reserve account funds may not be used to pay the Return to Owner, property taxes, insurance, or for the payment of other unexpected operating shortfalls.

With Agency approval, MPR reserve account funds may be used for the annual payment of the 25 percent interest earned the prior year for for-profit and limited-profit entities.

Building system replacements that are scheduled to occur over time shall be funded through the reserve account. Planned rehabilitation costs are handled outside of the reserve account using either a construction loan or an interim construction lender. If a project is undergoing rehabilitation, the costs are to be tracked and funded either through a Supervised Bank Account or through a construction lender. Soft costs and development fees associated with rehabilitation have not been accounted for in the CNA.

In MFIS, the "fully-funded" reserve amount for MPR projects, and for non-MPR projects where the reserve deposit has been resized to meet the long term CNA costs, should reflect the Inflated Total Capital Needs as stated in the Capital Needs Sheet, which is a part of the approved underwriting template. The required annual reserve deposit generally increases by the inflation rate in effect at the time the Loan Committee approved the transaction, and is shown on the Capital Needs Sheet. The required year end balances are dictated by the CNA and are expected to fluctuate.

### Changes in Return to Owner

Any approved or authorized changes in Return to Owner (RTO) will become effective upon completion of required repairs. MFIS shall be updated upon implementation of the revised RTO.

### Debt Deferral Agreement - Periodic Payments

The borrower is required to make periodic payments, in accordance with the Debt Deferral Agreement, which states, "Following the date hereof and until the end of the deferral, periodic payments on the loan shall be required only to the extent surplus cash (as defined in 7 CFR 3560.306 (d)(1)) is generated by Owner through the approved budgeted revenues and expenses for the Project as reflected in the current RD Form 3560-7, *"Multiple Family Housing Project Budget."*

Periodic surplus cash payments shall be deposited and distributed pursuant to 7 CFR 3560.306(d)(2), as follows:

1. To address capital needs
2. As an additional reserve deposit
3. As payment toward a Rural Development loan; or
4. To reduce amount of next rent increase

### Calculating Note Rate Rents for MPR 1 Percent Deferred Soft-Second (aka "Bullet") Loans

MPR projects that have a soft-second or "bullet loan" do not have an amortized monthly payment. This loan accrues interest at the rate of 1 percent, and a balloon payment of deferred principle and interest becomes due and payable at the end of the term of the latest maturing Section 514 or 515 loan at the time of deferral. The note rate rent for these projects will be calculated using the 1 percent rate even though the note is deferred.

### Premature Debt Deferral Termination

Should the debt deferral be terminated voluntarily prior to the deferral period, the deferred debt and interest will be re-amortized and become due and payable. (The annual deposit to the reserve account will revert to the pre-MPR deposit amount. The loan Agreement must be modified to reflect this change.) The borrower may not end the debt deferral or prepay the Deferred Loan(s) without the prior written consent of the Agency.

Should the debt deferral be terminated involuntarily prior to the deferral period due to the borrower's non-compliance, the full balance of the deferred debt and interest may become immediately due and payable. See Borrower Non-Compliance below.

## Borrower Non-Compliance

Servicing offices should review all specific program requirements, and take appropriate action to protect the Government's security interests and tenants residing in property financed by Rural Development. Borrowers failing to satisfy or meet the MPR approval conditions, loan documents, program asset management requirements and/or the Agency's regulations shall be considered in non-compliance. Routine servicing actions should be initiated at the field level, as permitted by 7 CFR Part 3560, and the MFH Project Servicing Handbook.

## MFIS Upgrades and other Improvements Underway

1. Implemented Changes for projects with an MPR indicator or CNA servicing effort in MFIS -
  - a. Users will be required to indicate if a reserve account withdrawal is in accordance with the CNA.
  - b. The budget analysis has been modified to provide a percentage summary of the reserve account withdrawals in comparison to the CNA.
  - c. Future annual Reserve Account funding amounts can now be entered and tracked.
  
2. Pending Changes
  - a. Upload of the CNA
  - b. New screen in MFIS will be created that is intended to aid loan servicers as they service MPR deals. The new screen will contain pertinent servicing requirements for the deal as well as special conditions from the conditional commitment:
    - i. MPR funding amounts and types received (i.e. grant, 515 loan, soft second, zero percent)
    - ii. Terms of debt deferral and the Restrictive Use Covenant
    - iii. Closing date, re-amortizations, and transfers
    - iv. Need for future equity determination every 3 years for FY 05 deals only
    - v. New annual reserve deposit and initial deposit to the reserve account (IDRR)

Questions concerning the servicing requirements for closed MPR projects should be directed to the Multi-Family Housing Portfolio Management Analyst for your state.

Attachment

## FY 2005 &amp; 2006 - MPR Servicing Matrix

	<b>FY 2005 MPR DEALS</b>	<b>FY 2006 MPR DEALS</b>
Conditional Commitment <ul style="list-style-type: none"> <li>To be extended if expired prior to closing.</li> </ul>	N/A	Applicable
Agreement to Defer <ul style="list-style-type: none"> <li>To be extended if expired prior to closing.</li> </ul>	Applicable	N/A
<ul style="list-style-type: none"> <li>Every three years, an equity determination/evaluation must be performed to make sure that the Agency is adequately secured.</li> <li>An appraisal need not be obtained specifically for this purpose. The Loan Servicer could utilize the current tax assessment, insurance policy, and knowledge of local market conditions in making the equity determination. The Loan Services will document the running record of the finding, and place the documentation used in the case file.</li> <li>A physical inspection is required; however, the last physical inspection would be acceptable.</li> <li>If it is determined that value of the property is less than the balance of the existing loan, the Agreement to Defer calls for the reamortization of the loan at the original promissory note rate. At the time of the reamortization, the interest will be capitalized and the entire amount due will be reamortized for the remaining term of the Existing Loan. The exact amount of the monthly payment will be determined at the time of reamortization. The Agency will continue to provide interest credit in order to reduce the amount of interest paid by the Owner to one percent. If the loan is reamortized pursuant to this paragraph, the Agency will release its Restrictive Use Covenant.</li> </ul>	Applicable	N/A
The Agency must notify the borrower no less than 15 days prior to the end of deferral period.	N/A	Applicable
Restrictive Use Covenants & Deferral Period	30 years	20 years
Reserve Account was capitalized at closing. There was no "Rehab Threshold" to consider.	Applicable	Applicable

June 21, 2011

TO: State Directors  
Area Directors  
Rural Development Managers

ATTN: Rural Housing Program Directors

FROM: Tammye Treviño (Signed by Tammye Trevino)  
Administrator  
Housing and Community Facilities Programs

SUBJECT: Interest Rate Changes for Housing Programs  
and Credit Sales (Nonprogram)

The following interest rates, effective July 1, 2011, are changed as follows:

<u>Loan Type</u>	<u>Existing Rate</u>	<u>New Rate</u>
<b>ALL LOAN TYPES</b>		
Treasury Judgment Rate	0.220%	0.190%

The new rate shown above is as of the week ending May 27, 2011. The actual judgment rate that will be used will be the rate for the calendar week preceding the date the defendant becomes liable for interest. This rate may be found by going to the Federal Reserve website for the weekly average 1-year Constant Maturity Treasury Yield ([http://www.federalreserve.gov/releases/h15/data/Weekly\\_Friday\\_H15\\_TCMNOM\\_Y1.txt](http://www.federalreserve.gov/releases/h15/data/Weekly_Friday_H15_TCMNOM_Y1.txt)).

**RURAL HOUSING LOANS**

Rural Housing (RH) 502 Very-Low or Low	4.625	4.250
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EXPIRATION DATE:  
July 31, 2011

FILING INSTRUCTIONS:  
Administrative/Other Programs

Single Family Housing (SFH) Nonprogram	5.125	4.750
Rural Housing Site (RH-524), Non-Self-Help	4.625	4.250
Rural Rental Housing and Rural Cooperative Housing	4.625	4.250

Please notify appropriate personnel of these rates.

Sent by Electronic Mail on \_\_6/21/2011\_\_\_\_, at \_\_10:00 am\_ by Program Analysis Division.  
State Directors should advise other personnel as appropriate.

June 23, 2011

TO: State Directors  
Rural Development

ATTN: Multi-Family Housing Program Directors

FROM: Tammye Treviño (Signed by Tammye Treviño)  
Administrator  
Housing and Community Facilities Programs

SUBJECT: Improper Payment Information Act Compliance Report  
Section 521 - Rental Assistance Program

Attached is a copy of this year's Multi-Family Housing (MFH) Improper Payment Information Act Report (IPIA) on an audit that was conducted January - March 2011. The Report (**Attachment A**) details the findings and recommendations of the study that was undertaken to determine the error rate of payments in the Rental Assistance (RA) program.

The report determined that the error rate of gross dollars improperly calculated against the fiscal year (FY) 2010 program outlay to be 1.48 percent. This rate is slightly higher than last year's rate of 1.39 percent. The Report revealed that subsidy payment calculation errors were made 1.18 percent of the time on Agency overpayment of subsidy to tenants and 0.30 percent on Agency underpayment of subsidy to tenants, and Agency improper payment of subsidy estimated at \$15.1 million. Unauthorized assistance over- and under-payments of \$100 or less were not counted in the error rate.

The study showed that "income calculation errors" were the most common source of all errors. This type of error accounted for 40 percent of the total number of errors.

As an Agency, we must continually improve our oversight of borrowers and management agents to ensure tenant incomes are verified with sufficient supporting documentation on which to make such determinations. Additionally, borrowers and management agents must review their quality assurance processes to make sure that they are securing documentation and verification, and improve the accuracy of their mathematical calculations.

EXPIRATION DATE:  
June 30, 2012

FILING INSTRUCTIONS:  
Housing Programs

As in the past three years, we requested the assistance of the Appeals, Audits & Unauthorized Assistance Unit from the Centralized Servicing Center (CSC) to complete the IPIA audit. CSC requested directly from property managers the supporting documentation for selected Rental Assistance payments. CSC made three attempts to contact the borrower/management agent in order to correct the noted error. Below is a list of the states with payment errors and the cause of the error:

<b>ST</b>	<b>Rec. No.</b>	<b>Error Amt.</b>	<b>Primary Code</b>	<b>Fault Code</b>
AR	45	\$470	Income calculation – documentation in file per site manager	1 – Insufficient Documentation
CA	146	\$137	Income calculation – wage calculation difference	3 – Both
CA	286	(\$192)	Asset Income (net, inputted, income)	3 – Both
CA	604	\$249	Certificate not dated	2 – Borrower/Agent Error
IN	280	\$136	Audit Package not returned	2 - Borrower/Agent Error
KS	446	\$183	Certificate not signed	2 – Borrower/Agent Error
KY	414	(\$289)	Income calculation – calculation difference on SSI	3 – Both
MI	50	\$178	Incorrect certificate	2 – Borrower/Agent Error
MO	212	\$205	Income calculation – calculation difference on SSI	2 – Borrower/Agent Error
MO	222	\$241	Deduction – medical documentation calculation difference	3 – Both
NY	350	(\$121)	Income calculation – other	2 - Borrower/Agent Error
ND	8	\$113	Income calculation – wage calculation difference	2 – Borrower/Agent Error
TX	576	\$115	Asset Income (net, inputted, income)	2 – Borrower/Agent Error
WV	125	\$145	Certificate not dated	2 – Borrower/Agent Error
WV	639	\$162	Deduction – medical documentation calculation difference	2 – Borrower/Agent Error

In order to improve Agency oversight and reduce the errors committed by borrowers and property agents, the Agency will be implementing the following corrective actions:

1. Meet with the property management business partners and the Agency to continue providing educational opportunities for the industry regarding the importance of the IPIA process and the types of errors that were identified. **Timeframe – September 30, 2011**
2. The National Office will continue to pursue access to the HHS New Hires data and HUD's Enterprise Income Verification (EIV) System to be shared with State Offices and management agents. This corrective action will provide third party documentation that should decrease the error of lack of file documentation. **Timeframe – Ongoing.**

If you have any questions regarding this memorandum, please contact Stephanie White at (202) 720-1615, or Janet Stouder at 202-720-9728.

Attachment

**MULTI-FAMILY HOUSING PROGRAMS****IMPROPER PAYMENTS INFORMATION ACT COMPLIANCE REPORT****May 2011**

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**Purpose**

Congress passed the Improper Payments Information Act in November 2002. It requires Agency financial and program managers to review annually all programs and activities. This review is designed to identify those programs that may be susceptible to significant erroneous payments and report the results in the *Performance and Accountability Report*. The President's Management Agenda includes an initiative to reduce Federal Government erroneous payments.

The Section 521 Rental Assistance Program had program outlays of approximately \$1,020.0 billion in FY 2010. In the Agency's initial risk assessment done in FY 2004, the Program was ranked High for potential erroneous payments. This study will serve as the eighth report and will be compared to the baseline established from the FY 2010 report. For FY 2011, the error rate of gross dollars improperly calculated against program outlays is 1.48 percent.

**Objective**

The major objective of this study was to determine the rate of error in the Rental Assistance Program in order to discern the magnitude of overpayments and underpayments and payments made in error. In order to respond to the major objective, the study had to determine answers to the following objectives:

- Does income verification support the income claimed by tenant?
- Was there administrative error on the part of property management agent?

**Background**

The United States Department of Agriculture (USDA) provides rental assistance subsidies to over a quarter-million households. To qualify for assistance, a household must submit an application to reside at USDA Rural Development financed Multi-Family Housing property through a borrower or their property management agent. The application process requires that the individual or family provide information on the amount and source(s) of income, which are verified by the property management agent. This income determination is the primary determinant of a family's rent charge and, in turn, of the amount of housing subsidy provided.

Errors may occur in documenting income and calculating the tenant rent contribution. Tenants may also deliberately conceal income sources. To the extent that a tenant is incorrectly determined eligible for program assistance or is not charged the correct rent, Federal subsidies are misused.

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**How the USDA Rental Assistance Program Works**

By statute, the Rental Assistance program is restricted to households of "very low-income" and "low-income". The Agency's very low-income standard mirrors that of the Department of Housing and Urban Development (HUD) and is set at 50 percent of area median family income, but is adjusted for family size and for unusually high or low income and housing cost patterns. The maximum total family income for eligibility is set at the low-income standard, which equals 80 percent of the area median family income, adjusted in the same manner as the very low-income limits.

For rent determination purposes, a family's total income is estimated on a prospective basis (i.e., their income at the time of certification or recertification is projected forward for one year). Under the MFH regulation, 7 CFR part 3560, tenant households must be recertified and must execute a tenant certification form at least annually or whenever a change in household income of \$100 or more per month occurs. Borrowers must recertify for changes of \$50 per month if the tenant requests that such a change be made. Rent charges must be revised each time a recertification shows changes in a household's income.

**Scope**

This study undertaken by USDA is the Agency's eighth effort to quantify the cost of errors on the Rental Assistance Program. The Agency used most of HUD's parameters to develop a study similar in objective, but it was conducted by in-house personnel, on a smaller scale, and with a modified scope of work. This year's study was conducted by the Agency's Centralized Servicing Center (CSC) staff instead of the field office staff. The HUD document utilized was entitled "Rent and Income Determination Quality Control Monitoring Guide" dated August 12, 2003. The Agency revamped the questionnaire to be completed by the CSC staff to accommodate Agency's terms and form format.

There were two areas that required investigation:

1. Whether income verifications support the income claimed by tenant; and
2. Errors and omissions that are primarily attributable to property management agents

This review looked at a statistically valid sample of the universe of all rental assistance payments made on behalf of tenants in FY 2010. The sample consisted of 666 rental assistance payments in 636 properties in 50 States and jurisdictions.

The study was conducted by the CSC staff during the months of December 2010 – April 2011. Using a statistically-valid sample of rental assistance payments across the portfolio, the National Office provided CSC with a list of payments to review. CSC sent letters to management companies informing them that a tenant file had been randomly selected for review. Directions

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were provided to the management agents as to the required supporting documents that were to be submitted to CSC for review. The CSC staff then reviewed the supporting documentation received from the management agent in depth to respond to the survey questionnaire.

**Methodology of the Study**

The Agency utilized the same statistical sampling methodology as used in Fiscal Year 2010:

1. Include all projects receiving rental assistance in FY 2010 in the universe to be sampled;
2. Select the units to be reviewed by a statistically valid method; and
3. Review all rental assistance payments made for the selected units during the fiscal year.

The Agency reviewed the sampling plan developed by HUD for its studies and engaged a statistician from USDA's Rural Development to prepare a similar plan for this report. This report is based on a review of tenants receiving RA during FY 2010. The sampling plan consisted of 666 rental assistance payments from a universe of 3,424,963 or .02 percent. The methodology produced a sample with a 99 percent confidence level. The study required the CSC staff to evaluate tenant files and income calculations prepared by the property managers. The Agency did not test if USDA's Rural Development Deputy Chief Finance Office paid appropriately on the borrower's request for subsidy due to the minuscule error rate from the FY 2004 report and due to the implementation of an automation enhancement to improve data entry.

The universe of rental assistance payments during FY 2010 was 3,424,963. The only parameter used to determine the eligible universe was the payment of RA. No other data element, such as location, size of property, number of units, and availability of other rental assistance (such as Section 8) was a consideration. The statisticians were provided a data extract from the Multi-Family Housing Information System (MFIS) that contained a list of all tenants receiving RA who occupied the unit as of September 1, 2009 for payment as of October 1, 2009 through September 1, 2010. The data included month of payment, project name, project identifier (case number/project number), and tenant name and unit number. From the data extract, the statisticians selected the sample by a systematic sample technique. See the Appendix for the methodology. Once the sample was identified, CSC issued a letter to the management agents in December 2010. Detailed instruction used by the field staff was provided to the CSC staff that explained the process, provided the list of tenant payments to be reviewed and provided the data currently maintained in MFIS that was used as the baseline review of the tenant data comparison between the Agency records and the management agent's tenant documents. . There was to be no substitution of the selected payment and if the management agent was unable to submit the file, the payment would be considered improper.

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**Analytic Methods - Findings**

The Agency targeted and analyzed data to determine the four areas below:

1. Identify the types of errors and error rates.

Errors were determined by reviewing documentation from the sample tenant payment list provided from MFIS and comparing results to those found in the tenant file from the property management agent. Calculations reviewed in this manner were all related to income and rent determinations. Errors were determined by reviewing file documentation for verification and for resolution to questions arising from the income calculations. Where insufficient documentation or lack of verification came to light, respondents provided this as an attributed fault code. Respondents were requested to assign fault where errors were detected in the income and deduction calculation portion of the survey checklist. These "fault codes" were:

1. Insufficient Documentation provided
2. Borrower/Agent Error
3. Both (1 & 2)

The following table shows the percentage of fault, or reason, assigned to errors.

<b>Fault Indicators</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>Total</b>
Number	1	10	4	15
Percentage	6.7%	66.7.0%	26.6%	100%

2. Estimate the national-level costs for total error and major error types.

National level costs for total error and major error types were estimated by following this process:

To determine the number of instances of errors:

- Determine the number of cases and cost of each error in overpayment of USDA subsidy (or underpayment by tenant) in the sample (12 cases of USDA overpayment for a total of \$2,334).
- Determine the number of cases and cost of each error in underpayment of USDA subsidy (or overpayment by tenant) in the sample (3 cases of USDA underpayment for a total of \$602).
- Determine the rate of error per sample by adding the number of overpayment and underpayment cases, and then divide the total error cases by the sample.

**Perform the Calculations:**

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- Add number of errors for over and underpayment = total error cases. Divide total error cases by sample size = rate of error or occurrence of error. For 2011 study, the rate of error is 1.48 percent.<sup>(1)</sup>
- To Determine the Total Cost of Errors (TCE) per total Universe of Rental Assistance payments for the period, we can use the formula:

$$I(5,143) * C(\$2,936) = TCE(\$15,098,636)$$

Based on the formula above that cost comes to \$15.1 Million.<sup>(1)</sup>

(I) = The number of times that the sample size or interval (666) appears in the data for the universe of rental assistance payments - (5,143 for 3,424,963 records).

(TCE) = Total Cost of Errors per Total Universe of Rental Assistance payments for the period.

(C) = Total Cost for errors obtained in the sample size (\$2,936.00).<sup>(1)</sup>

- To determine the error rate of the dollar impact, take the TCE (\$15.1 Million) amount and divide by the total amount of actual period outlays for Rental Assistance (\$1.020 Billion). The program error rate is \$15.1 M / \$91.020 B or 1.48 percent.

<sup>(1)</sup> Reference Error Rate Determination of Tenant Subsidy Table below.

**Error Rate Determination of Tenant Subsidy Payment**

FY 2011			
<b>Universe of Rental Assistance Units:</b>	<b>3,424,963</b>		
<b>Sample of RA Units:</b>	<b>666</b>		
<b>No. Samples in Universe:</b>	<b>5,143</b>		
	<b>No. Errors</b>	<b>% of Errors</b>	<b>\$ Errors</b>
<b>USDA Cases of Overpayment/Sample</b>	<b>12</b>	<b>1.80%</b>	<b>\$ 2,334.00</b>
<b>USDA Cases of Underpayment/Sample</b>	<b>3</b>	<b>0.45%</b>	<b>\$ 602.00</b>
<b>Total Errors / Sample</b>	<b>15</b>	<b>2.25%</b>	<b>\$ 2,936.00</b>

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**Projected Error rate for FY 2011 Outlays at 1.48%**

	Period
	FY 20109
	Millions
<b>Total Cost of Errors / Universe (Projected)</b>	<b>\$15.1</b>
<b>Total Sept 2008 - Sept 2009 RA Outlays</b>	<b>\$1,020</b>
<b>%Error Rate of Impact vs Outlays</b>	<b>1.48%</b>

3. Estimate the total positive and negative errors in terms of RA subsidy.

The survey required CSC staff to analyze the tenant's file with the Tenant Certification and all accompanying documentation to determine if the subsidy calculation was appropriate for that tenant. The CSC staff was asked to evaluate the following categories in reaching this conclusion:

- a. If Form RD 3560-8, "Tenant Certification" was signed and dated on or prior to the effective date of the form
- b. For Off Farm Labor Housing, is the tenant a United States citizen or qualified alien
- c. Net Family Assets
- d. Imputed Income from Assets
- e. Income from Assets
- f. Wages, Salaries, etc.
- g. Soc. Sec., Pensions, etc.
- h. Assistance
- i. Income contributed by Assets
- j. Other
- k. Deduction for number of Minor, Disabled, Handicapped or Full-time Student 18 or Older
- l. Deduction for elderly status
- m. Medical exceeding 3 percent of total Income
- n. Child Care

The staff reviewer then compared the property manager's supporting documentation and calculations based on the information in the Agency's database, MFIS, with the reviewer's findings and calculations. If there was a difference, it was noted in the survey. The plus or minus calculation was used in determining the tenant contribution towards rent and the subsidy

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**Attachment A**

paid for the unit, which in turn determined the amount of overpayment or underpayment of subsidy.

The survey discovered in 12 instances of the 666 payments surveyed that overpayments to tenants totaled \$2,334. These errors occurred 1.80 percent of the time. In 3 instances, underpayments to tenants totaled \$602 and occurred 0.45 percent of the time. These errors, both positive and negative, occurred 15 times in the sample. This is 2.25 percent of the sample. The expectation is that in the universe of rental assistance payments, errors would occur at a rate of 2.25 percent of the universe. The total dollars impact of these errors, \$2,936 per sample, or \$15.1 million on a universe basis, is equivalent to 1.48 percent of the FY 2010 Rental Assistance outlays of \$1.020 billion.

4. Whether USDA properly paid the appropriate subsidy requested by the borrower.

The Agency did not test if USDA's Rural Development Deputy Chief Finance Office (DCFO) paid appropriately on the borrower's request for subsidy due to the minuscule error rate from the FY 2004 report and due to the implementation of an automation enhancement to improve data entry.

Proper payment of the subsidy request by USDA occurred nearly 100 percent of the time. This can be attributed to the checks and balances instituted by the DCFO, which ensures that amounts paid match that requested by the borrower. In the fall of 2004, the Agency implemented an internal automation procedure for processing Multi-Family Housing monthly payments. Previously, the field office would enter data, received from the borrower, into the Automated Multi-Housing Accounting System (AMAS). Beginning February 24, 2006, all borrowers with eight or more units are required to submit tenant certifications electronically to the Agency. This represents 96 percent of all properties with RA in the portfolio. The CSC processes tenant certifications that are received electronically. The tenant certification data is compiled into a "project worksheet" that the borrower views via a secured website and approves the "project worksheet" instead of completing and submitting a form to the Agency. This eliminates any key entry problems from the field office staff. Currently, the Agency is processing 93% percent of all subsidy requests through this process.

**Quality Assurance Issues**

Quality assurance may be the most important aspect of a review of improper payments. Errors made by reviewers could result in skewed dollar figures and incorrect determinations regarding the extent of errors. While efforts to reduce errors should always be undertaken, quality-assured data is necessary to determine success or failure in achieving reduction rates.

This year, the Appeals, Audits & Unauthorized (AAU) Unit at CSC conducted the review. In the first few years, the field staff was used to conduct the study. However, the National Office was

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concerned about inconsistencies in reviews from prior years and wanted a disinterested third party to conduct the review this year. The AAU Unit established an automated review process and conducted their own quality assurance testing by using team leaders to check the reviewer's work. This eliminated the National Office staff performing quality assurance testing as had been completed in prior years.

**Effect of Quality Assurance Issues on Report**

Overall, the effect of these quality assurance tests on the fundamental question of overpayment or underpayment is deemed negligible. A review of that portion of the survey indicates that reviewers generally were careful to note if supporting documentation existed to substantiate income claims and, where such documentation did not appear in the file or was unclear, appropriate notations and calculations were made on the survey instrument.

Data from this survey has provided a wealth of knowledge on portfolio activities, general training needs, field staff skill levels, areas of concentration for particular training attention, and especially areas where follow-up is needed with borrowers. National Office staff is now developing an in-depth overview to provide to the States for their edification, training planning and issue resolution.

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**Summary**

The tasks being evaluated in the annual IPIA report are currently outside of the direct control of Rural Development. We are evaluating several methods by which to achieve compliance by borrowers and their property managers, including:

- Institution of penalties for failure to comply;
- Continued pursuit of National wage matching data access for property managers;
- Determine the feasibility of bringing this property management task of certifying tenant incomes to a centralized point under the control of Rural Development.

**Recommendations**

The Agency is now implementing a corrective action plan as a result of the findings of this report. Therefore, the results of the corrective actions are not reflected in this report and may have positively impacted the error rate. The IPIA survey results for this year were approximately .1% higher than last year. While we attribute the aggressive implementation of MFH's corrective action plan and a concerted effort of focused training by both the Agency and the Industry groups in the past years, this year's rate increased due to incomplete paperwork from property managers. In the past three years, the industry groups have been aggressive providing training to the management agents on the documentation and calculation of tenant incomes. This training was a result of past corrective action plans where the Agency and industry groups met to discuss ways to make improvements in the IPIA error rate.

Recommendations for the FY 2011 report are the following:

1. Meet with the property management business partners and the Agency to continue providing educational opportunities for the industry regarding the importance of the IPIA process and the types of errors that were identified. *Timeframe – September 30, 2011*
2. The National Office will continue to pursue access to the HHS New Hires data and HUD's Enterprise Income Verification (EIV) System to be shared with State Offices and management agents. This corrective action will provide third party documentation that should decrease the error of lack of file documentation. *Timeframe – Ongoing.*

**Appendices**

FY 2011 Sampling Methodology

Sample Letter sent to Management Agents

**Appendix A**

**Multi-Family Rental Assistance Program**

**Rental Assistance Survey: Sample Size Selection**

In certain instances, the observations (billing payments) in the population of interest are available in a list, such as a payment list, or in a computer file folder stored on a computer system somewhere. We can obtain the number of records for a certain period of time because that information was stored in a database or record keeping system maintained by Multi-Family Housing Program. For this situation an economical technique is to draw the sample by selecting one random payment record near the beginning of the list and then selecting the N<sup>th</sup> number record there after. If the sampling is conducted in this manner, we obtain a systematic sample. As you may expect, systematic sampling offers a convenient and cost effective means of obtaining sample information. This design gives the desired bound on the error of estimation at a minimum cost.<sup>(1)</sup>

Total Number of Observations \* Cost of Work = Total Cost of Project

The cost to Multi-Family Housing would be too great to observe each payment in the total population of rental payments to applicants. We choose to select the most current records from September 1, 2009 to September 1, 2010. There are 3,424,963 records from the dates stated above. A random sample of this population can successfully obtain accurate information about the Section 521 Rental Assistance Program (RAP).

\*See References below

**Sample Size Calculator**

Before we explain the method that was used to obtain the sample size, certain common terms must be defined.

Definition 1: An Element is an object on which a measurement is taken.<sup>(1)</sup>

Definition 2: A population is a collection of elements about which we wish to make an inference.<sup>(1)</sup>

Definition 3: Sampling units are no overlapping collections of elements from the population that cover the entire population.<sup>(1)</sup>

Definition 4: A frame is a list of sampling units.<sup>(1)</sup>

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Definition 5: Confidence interval is the plus or minus figure reported as true value of the parameter a predetermined proportion of the time if the process of finding the group of values is repeated a number of times. <sup>(2)</sup>

**Factors that Affect Confidence Intervals <sup>(2)</sup>**

**Sample size**

The larger your sample, the more sure that your answers will represent the population

**Percentage**

The worst case percentage (50) % can be used to determine a conservative sample to determine a general level of accuracy.

**Population size**

Assumes a population size when it is large or unknown

**Sample Size Formula <sup>(2)</sup>**

$$SS = \frac{Z^2 * (p) * (1-p)}{C^2}$$

Where:

Z: Z Value (e.g. 1.96 for 95% Confidence level or 2.58 for 99 % Confidence level)

p: pick for an outcome to occur successfully (.5 used for a conservative sample size needed)

q = 1-p: a pick for an unsuccessful outcome

C: Confidence interval, expressed as decimal (e.g., .05 = +/- 5)

SS: Sample Size

$$SS = \frac{(2.58)^2 * (.5) * (.5)}{(.05)^2} = 665.64$$

Correction for Finite Population = 3,424,963 record of payments from Sept 1, 2009 to Sept 1, 20109. <sup>(2)</sup>

$$\text{New SS} = \frac{SS}{1 + \frac{SS-1}{\text{Pop}}} = \frac{665.64}{1 + \frac{665.64-1}{3424963}} = 665.51 := 666$$

Where: Pop = population

\*See References below

### **Plan for Taking the Sample**

Once the sample size has been determined with a 99 percent confidence we then turn to using this predetermined sample size in the population of payment records during the current cycle of the Multi-Family Housing Rental Assistance Payments from September 1, 2009 thru September 1, 2010.

### **Defining a Systematic Random Sample**

Systematic random sample - a systematic sample is selected by first listing the population and assigning numbers to each name on the list starting with one and going to n, the last name on the list. Then calculating a sampling interval, (I), which is equal to the number of cases on the list (n), divided by the required number of cases to be selected for the sample. Then select a random number, (X), which falls in the interval 1 to (I). The first member of the sample is the case numbered (X) on the list the remaining members of the sample are selected by constant addition of (I). Thus the second member is (X) + (I) and the third member of the sample is (X) + 2(I) and so on through the list. <sup>(3)</sup>

Referencing the above definition to what is a systematic random sample, we take the following steps to ensure that a true random sample is taken of the monthly billing payments of the Multi-Family Housing Program.

#### **Step 1**

Use a random number generator to select a beginning point

This beginning point can be determined by using a formula  $T(p)/SS = I$

Where:

T(p) = the total population

SS = The Random Sample Number

I = The range used to arbitrarily select the starting point and each subsequent point in the population – listing of the payments of assistance from the Multi-Family Housing Rental Assistance Program.

$T(3424963)/SS(666) = I(5142)$

Using Microsoft's Excel random number formula:

$\text{Int}(\text{Rand()} * 5142)$  could yield any number from 1 to 5142 = Random(X)

In our case, we used Microsoft Excel to generate a random number that would be our starting place. That random number is 4576.

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Note: Any random number generator may be used to determine the starting point of any sample.

Result:

4576, 4576 + 5142, 4576 + 2(5142), 4576 + 3(5142) ... 4576 + 665(5142)

X = 4576 and I = 5142, then the starting point is 4576 then continues with 9718, 14860, 20002 ... 3424006 until predetermined sample is complete. <sup>(3)</sup>

Record 4576 in the current database is the first to be selected:

**09/01/10 BUENA VISTA HOMES 508133270-04-2 MARCH, MARY 3A**

Next record is 4576 + 5142 = 9718

**09/01/10 SUNSET GARDEN APTS 856768615-06-6 REDONA, HECTOR 24**

...

Last Record (3424006):

**08/01/10 AMOS LANDRUM APTS GATEWAY DEV ASSO 723264895-01-1 COOPER, PATTY S 11**

**Step 3**

Compile the list from the systematic sample to distribute to State, local and field branch representatives to review the record.

**References**

Reference 1: Elementary Survey Sampling Third Edition by Scheaffer, Mendenhall, Ott

Reference 2: Creative Research Systems, [www.surveysystem.com/sscalc.htm](http://www.surveysystem.com/sscalc.htm)

Reference 3: [www.nyu.edu](http://www.nyu.edu) Mid semester Examination answers V93.0301 Research Methods

### Example of Management Agent Letter Sent – December 2010

This letter is to inform you that the tenant certification identified below was randomly selected for a review of your file documentation and calculation of Rental Assistance. This review is part of an annual review required to be conducted by the Agency in accordance with the Improper Payment Information Act (IPIA). **Please provide the information identified below by January 10, 2011.**

This year, the Centralized Servicing Center (CSC), which processes your monthly payment, will be conducting the review.

Please submit a copy of Form RD 3560-8, "Tenant Certification," and supporting documents for the following tenant:

<u>Property Name</u>	<u>Location</u>	<u>Unit No.</u>	<u>Tenant Name</u>	<u>Effective Date of "Tenant Certification" to be reviewed</u>
ABC APARTMENTS	ANYTOWN, USA	10A	DOE, JOHN	03/01/2010

**Note:** The effective date of the certification may not be the current certification.

Please ensure that the supporting documents consist of all documents that were used to complete the "Tenant Certification" identified above. This includes calculation tapes, internal worksheets, and third-party verifications. Examples of supporting documents are as follows:

- **Verification of Employment:** A copy of verification of employment for each adult household member
- **Zero Income Persons:** Include the Zero Income Verification Checklist from your files.
- **Unemployment and Unemployment Benefits:** Tenants receiving unemployment benefits must provide the most recent award or benefit letter prepared and signed by the authorizing agency to verify the unemployment income.
- **Regular, Unearned Income (e.g., Social Security, pensions, workers compensation):** A copy of the most recent award or benefit letter prepared and signed by the authorizing agency.
- **Public Assistance:** A copy of the most recent award or benefits letter prepared and signed by the authorizing agency to verify the amount of public assistance received
- **Alimony or Child Support Payments:** A copy of the divorce decree, separation agreement, or other document indicating the amount of the required support payments. (If the tenant reports that the amount required by the agreement is not being received, the tenant must document that assistance has been requested from the state or local entity responsible for enforcing payment.)

**RURAL DEVELOPMENT  
MULTI-FAMILY HOUSING PROGRAMS**

**Attachment A**

**IMPROPER PAYMENTS INFORMATION ACT COMPLIANCE REPORT  
May 2011**

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- **Support for Foster Children or Adults:** Documentation indicating the amount of money received for the care of foster children or adults, and the anticipated period of time the support will be provided.
- **Income Tax Return:** For self employment, a complete, legible copy of the most recently filed Federal income tax form may be submitted for each applicant/tenant, unless the person was exempted from filing a return.
- **Verification of Assets and Income from Assets:** Financial institution statements to verify account balances. (For some assets, such as mutual funds or 401(k) accounts, copies of year-end statements can provide information about annual income. Documents from tenants that identify if any asset has been disposed of for less than fair market value.)
- **Disability/Handicapped Documentation:** If the tenant has been living in the property for a while, the necessary documentation may have to be retrieved from the application or prior certification documentation.
- **Medical Expense:** Documentation used to calculate medical expenses.
- **Citizenship:** FOR FARM LABOR ONLY, documentation of U.S. citizenship or immigration status (for all household members) is required.

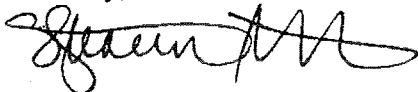
**Included is a FAX cover sheet with corresponding Record number to be submitted with each Tenant Certification and supporting documents.**

**We request that you fax the documents to 314-457-4562 by January 10, 2011 between the hours of 6:00 a.m. and 4:30 p.m. Central Standard Time, Monday through Friday.**

If faxing is a problem or if you have any questions concerning this letter, you may contact the Audit Unit at 1-800-349-5097, extension 5785, from 8:00 a.m. to 4:30 p.m. Central Standard Time, Monday through Friday.

We appreciate your immediate attention and assistance with this review.

Sincerely,



Stephanie B.M. White  
Director  
Multi-Family Housing  
Portfolio Management Division

June 27, 2011

TO: State Directors  
Rural Development

ATTENTION: Single Family Housing Program Directors

FROM: Joyce Allen *(Signed by Joyce Allen)*  
Deputy Administrator  
Single Family Housing

SUBJECT: Section 502 Direct Loan Data Check Report

In our continuing efforts to improve Section 502 Direct Loan data quality, we have developed a Data Check Report. This report will give Program Directors the ability to quickly identify where data errors are occurring and how to correct them.

The initial report will be posted to SharePoint on **July 1, 2011**. State Program Directors will be sent a notification email providing the link to the report.

This information will be used to establish a data error rate goal for each State. The goal establishes a maximum percentage of obligations flagged with missing, conflicting, or inaccurate data. We anticipate this goal will be established and made effective by October 1, 2011. **Once effective, National Office Reserve funds will only be available to States that achieve an obligation data error rate at or below this threshold.**

If you have any questions regarding this memorandum, please contact the Direct Loan Division at SFHDIRECTPROGRAM @wdc.usda.gov

Sent by Electronic Mail on June 27, 2011 at 10:25 a.m. by the Single Family Housing Direct Loan Division. The State Director should advise other personnel as appropriate.

EXPIRATION DATE:  
October 31, 2011

FILING INSTRUCTIONS:  
Housing Programs

June 28, 2011

TO: State Directors  
Area Directors  
Rural Development Managers

ATTN: Business Program Directors

FROM: Judith A. Canales *(Signed by Judith A. Canales)*  
Administrator  
Business and Cooperative Programs

SUBJECT: Interest Rate Changes for Business and Industry Loans

The following interest rate is in effect July 1, 2011, through September 30, 2011.

<u>Loan Type</u>	<u>Existing Rate</u>	<u>New Rate</u>
Direct Business and Industry	3.250%	3.250%

Please notify appropriate personnel of this rate.

EXPIRATION DATE:  
September 30, 2011

FILING INSTRUCTIONS:  
Administrative/Other Programs

Sent by Electronic Mail on 6/28/2011, at 1:00 pm by Program Analysis Division. State Directors should advise other personnel as appropriate.

June 29, 2011

TO: State Directors, Rural Development  
ATTN: Business Programs Directors  
SUBJECT: Rural Economic Development Loan and Grant Program  
Projects Funded for Third Quarter, Fiscal Year 2011

Business Programs has announced loan and grant selections for the third quarter of fiscal year (FY) 2011 under the Rural Economic Development Loan and Grant program. A listing of loan and grant awards is attached for your information.

During the third quarter of FY 2011, fifteen zero-interest loan applications, totaling \$9,706,228, were considered by Business Programs. Based on the availability of funds, all applications submitted were selected for funding. These funds will be leveraged by \$217,865,946 of private and public financing, directly create and/or retain an estimated 2,356 jobs in rural areas.

In addition to the loan selections, nine grants, totaling \$2,650,000 to finance a revolving loan fund program that will be operated by rural electric utilities, were selected for funding. The initial zero-interest loan from the revolving loan fund program, leveraged by \$11,239,441 in private and public financing, will provide financing to construct an aquatic center; a 30,000 sq. ft. building; a 25,000 sq. ft. industrial building expansion; and renovation of a performing arts center; and purchase furniture, fixtures and equipment for a medical center. An estimated 831 jobs will be created and 646 retained as a result of this grant.

If you have any questions, please contact Melvin Padgett, Loan Specialist, at (202) 720-1495 or Cindy Mason, Loan Specialist, at (202) 690-1433, Specialty Programs Division, Processing Branch.

*(Signed by PANDOR H. HADJY)*

PANDOR H. HADJY  
Deputy Administrator  
Business Programs

Attachments

EXPIRATION DATE:  
September 30, 2011

FILING INSTRUCTIONS:  
Community/Business Programs

**RURAL ECONOMIC DEVELOPMENT LOAN AND GRANT PROGRAM  
REQUEST FOR LOAN FUNDS – Third Quarter FY 2011**

FY 2011 Allocated Funds	\$33,077,000.00
Carryover Funds	<u>\$23,308,584.81</u>
Total Available	\$56,385,584.81
Less 1 <sup>st</sup> Quarter	\$ 7,132,000.00
Less 2 <sup>nd</sup> Quarter	\$ 1,846,472.00
Less 3 <sup>rd</sup> Quarter	<u>\$ 9,706,228.00</u>
Balance Remaining	\$37,700,884.81

<b>State</b>	<b>Project</b>	<b>Loan Amount</b>	<b>REDL Number</b>
IN 01	Utilities District of Western Indiana-REMC.	\$ 740,000	1291
SC 50	Central Electric Power Cooperative, Inc.	\$ 740,000	1292
CO 25	San Isabel Electric Association	\$ 720,000	1293
KY 03	Jackson Energy Cooperative Corporation	\$ 740,000	1294
MT 516	Triangle Telephone Cooperative Association, Inc.	\$ 551,000	1295
SD 522	Venture Communications Cooperative	\$ 740,000	1296
MS 28	Coast Electric Power Association	\$ 740,000	1297
IA 510	Winnebago Cooperative Telecomm Association	\$ 600,000	1298
KS 59	Rolling Hills Electric Cooperative, Inc.	\$ 740,000	1299
MN 53	Steele Waseca Cooperative Electric	\$ 740,000	1300
KY 52	Fleming-Mason Energy Cooperative, Inc.	\$ 740,000	1301
KS 55	Midwest Energy, Inc.	\$ 740,000	1302
MN 57	Lake Region Electric Cooperative	\$ 320,228	1303
MN 37	Federated Rural Electric Association	\$ 740,000	1304
MN 505	Garden Valley Telephone Company	\$ 115,000	1305

*15 Loans                      Total                      \$ 9,706,228*

**Balance of Loan Funds After Above Request:                      \$37,700,884.81**

**RURAL ECONOMIC DEVELOPMENT LOAN AND GRANT PROGRAM  
REQUEST FOR GRANT FUNDS – Third Quarter FY 2011**

FY 2011 Allocated Funds	\$10,000,000.00
Carryover Funds	<u>\$ 1,511,607.07</u>
Total Available	\$11,511,607.08
Less 1 <sup>st</sup> Quarter	\$ 1,424,000.00
Less 2 <sup>nd</sup> Quarter	\$ 0.00
Less 3 <sup>rd</sup> Quarter	<u>\$ 2,650,000.00</u>
Balance Remaining	\$ 7,437,607.07

State	Project	Grant Amount	REDG Number
IN 01	Utilities District of Western Indiana-REMC	\$ 300,000	518
OR 14	Umatilla Electric Cooperative, Inc.	\$ 300,000	519
SD 522	Venture Communications Cooperative	\$ 300,000	520
IA 81	Central Iowa Power Cooperative (CIPCO)	\$ 300,000	521
MN 57	Lake Region Electric Cooperative	\$ 300,000	522
IA 32	Butler County Rural Electric Cooperative	\$ 300,000	523
IA 116	Board of Waterworks and Electric Power Plant Trustees	\$ 300,000	524
IA 117	Manning Municipal Light Plant	\$ 250,000	525
IA 118	Indianola Municipal Utilities	\$ 300,000	526

*9 Grant                      Total                      \$2,650,000*

**Balance of Grant Funds After Above Request:                      \$7,437,607.07**

June 30, 2011

TO: State Directors  
Rural Development

FROM: Tammye Treviño (Signed by Tammye Treviño)  
Administrator  
Rural Housing and Community Programs

SUBJECT: Leveraging the New Market Tax Credits Program with the Community Facilities  
Loan Programs

Community Programs is being approached to consider direct and guaranteed loan financing leveraging the New Market Tax Credit (NMTC) Program. This memorandum will provide an understanding of the NMTC program and provide guidance in determining if the financing proposal would be eligible under the Community Facilities (CF) Guaranteed or Direct Loan Programs.

A BRIEF OVERVIEW OF THE NMTC PROGRAM:

Congress authorized the NMTC program under the Community Renewal Tax Relief Act of 2000, to bring capital to communities that have traditionally had inadequate access to capital. The NMTC program encourages investors to make investments in low-income communities and will provide a tax credit to them for making the investments in a designated Certified Development Entity (CDE). The tax credit is equal to 39% of the investment and is spread over a 7-year period. The transaction, under the NMTC program, is complete at the conclusion of the 7-year period.

The Department of Treasury administers the program through the Community Development Financial Institution (CDFI) Fund and will upon successful application by a legally established organization, designate it as a "Certified Development Entity". Sometimes the CDE will establish sub-CDEs to carry the investment. The organization's primary mission must be to serve low-income communities or low-income people. The programs initial intent was to attract investors to invest in small businesses, but creative efforts by the CDE's have targeted nonprofit community facility financing.

More specifically, funding is awarded annually by the CDFI fund to a CDE through a competitive process. The CDE has five years to raise a Quality Equity Investments (QEIs) from investors. Once the CDE has the QEIs available, the CDE has twelve months to place the QEIs into a Qualified Low Income Community Investments (QLICIs). This is accomplished by

EXPIRATION DATE:  
July 31, 2012

FILING INSTRUCTIONS:  
Community/Business Programs

providing loans to or investments in qualified active low-income community businesses (QALICB); providing loans to or investments in other CDE's; the purchase of qualifying loans originated by other CDE's or other loans that qualify as a QLCI; and providing counseling to low-income community businesses.

**UTILIZING THE NMTC PROGRAM WITH THE CF GUARANTEED LOAN PROGRAM:**

A NMTC loan leveraged with another loan program is a complex transaction that includes investors, an investment pool, parent organizations, a CDE, a sub-CDE, a borrower; and, in this case, a government loan program. The State Office and field staff, to fully understand the transaction, should always request a diagram or flow-chart of the financing structure when considering CF participation in the NMTC program. Since NMTC are routinely utilized as a funding mechanism for low income community businesses, CF staff must insure that when considering the NMTC application, that the project is an eligible community facility.

Pursuant to §3575.27 of the CF guaranteed loan regulations, an eligible lender must be subject to credit examination and supervision by an appropriate agency of the United States or a state that supervises and regulates credit institutions. The appropriate agencies are the Federal Deposit Insurance Corporation, the Office of Comptroller of the Treasury, the Office of Thrift Supervision, the Federal Reserve Bank, the Farm Credit Administration, the National Credit Union Administration, or a state banking commission. It must also be understood that if the parent entity of a CDE has regulatory oversight, it usually does not extend to its subsidiary CDE. Evidence must be provided that a CDE/sub-CDE, being considered as a CF guaranteed lender, has the requisite regulatory oversight. Under the CF guaranteed loan program, which may be different from other Rural Development loan programs, non-traditional lenders without the required regulatory oversight are ineligible guaranteed lenders.

**Holder Participation Model**

The CDE can become the holder/participating lender of the guarantee through: (1) a sale of the Loan Note Guarantee; (2) purchasing a participation in the loan; or (3) the purchase of the Loan Note Guarantee and participation in the non-guaranteed portion of the loan. All program rules relating to participation or sale to a holder must be followed. This approach may provide more favorable interest rates to the borrower.

In this manner participation with the CDE/sub-CDE is outside the CF transaction and conducted in the normal course of business by the commercial lender.

**UTILIZING THE NMTC PROGRAM UNDER THE CF DIRECT LOAN PROGRAM:**

The CF Direct Loan Program involves a direct disbursement of loan funds from the Agency to the borrower. The use of proceeds is limited to construction, renovation, improvement of a community-type project or the purchase of equipment. The CF direct loan regulation at 7 C.F.R. Part 1942, Subpart A, does not authorize disbursement of loan funds to flow through an investment pool, to flow from the borrower through the CDE and back to the borrower, or other such configuration. A CF direct loan may participate with the NMTC program, if a CDE provides construction financing, and the CF direct loan is used to take out the construction financing.

**NATIONAL OFFICE CONCURRENCE REQUIRED ON FINANCING NMTC PROJECTS:**

National Office concurrence is required on CF direct and guaranteed financing of projects leveraging the NMTC program. The State Office and field staff, to fully understand the transaction, should always request a diagram or flow-chart of the financing structure when considering CF participation in the NMTC program. Please be sure to include the diagram or flow-chart with the docket when submitting the application to the National Office for concurrence. It may be mutually beneficial to all parties, if an eligibility determination is obtained prior to the application stage.

If you have any questions, please do not hesitate to contact Kendra Doedderlein at (202) 720-1503.