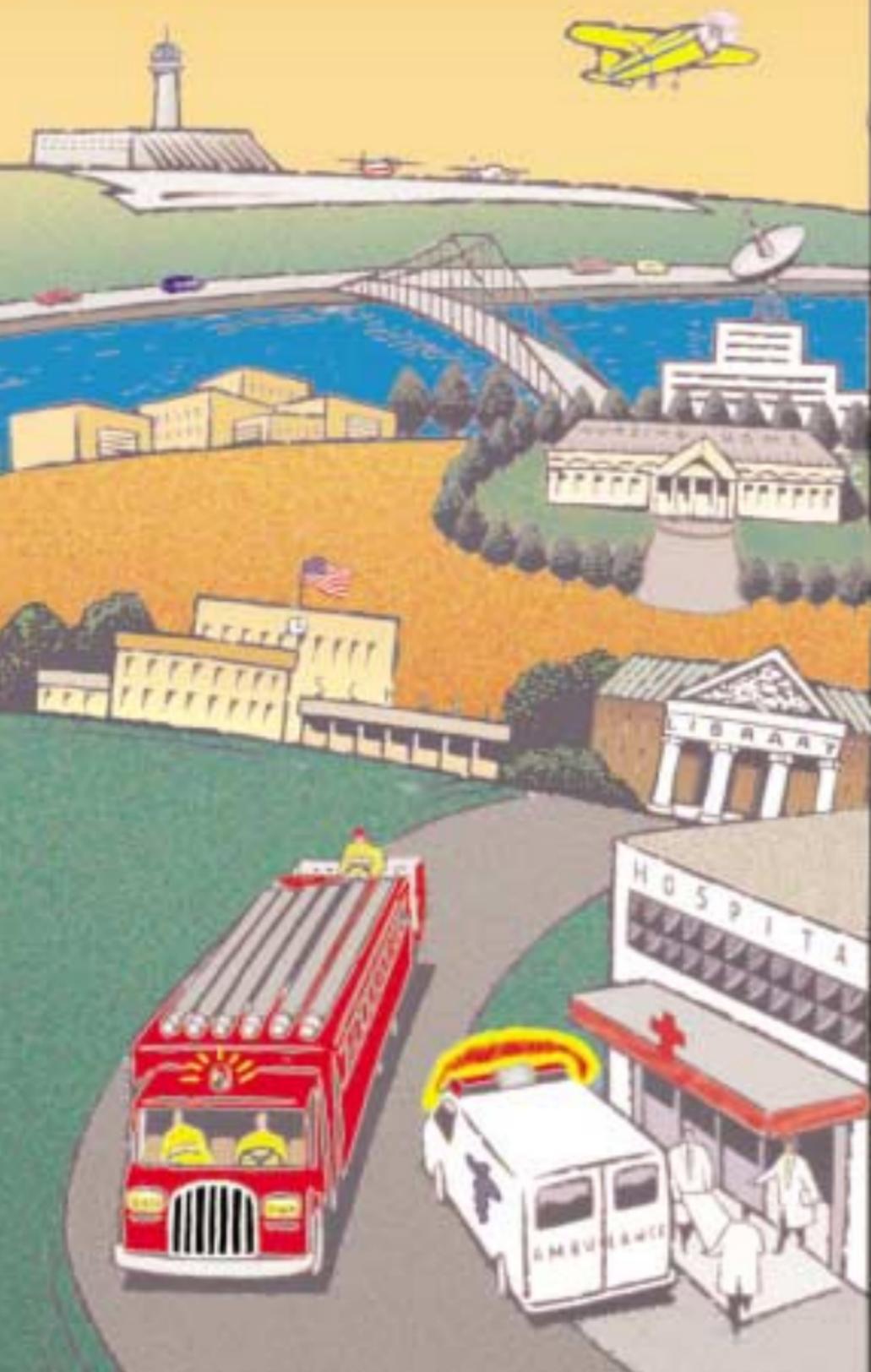


Guaranteed Community Facility Loans





United States Department of Agriculture
Rural Development • Rural Housing Service





USDA Rural Development is committed to building stronger, more vibrant rural communities across the nation. Community facilities such as health care clinics, police and fire stations, and schools are essential to the quality of life in rural communities. The Rural Housing Service of the USDA Rural Development can work with local lenders including banks, savings and loan associations, mortgage companies, and Farm Credit System banks--to offer loan guarantees to help build essential community facilities.

Types of Projects Financed

- n *Health Care* — such as hospitals, clinics, nursing homes, ambulatory care centers, etc.
- n *Public Safety* — such as police and fire stations, jails, fire and rescue vehicles, and communication centers.
- n *Telecommunications* — medical and educational telecommunications links.
- n *Public Services* — such as adult and child care centers, courthouses, airports, schools, fairgrounds, jails, etc.

Eligible Entities

- n *Public entities* — municipalities, counties, other public subdivisions, and special-purpose districts.
- n Federally recognized Indian Tribes.
- n Nonprofit organizations.

Eligibility Issues

- n Lender must be unwilling to make the loan without obtaining a loan guarantee.
- n Loans are limited to unincorporated rural areas and incorporated towns of 50,000 or less.

Benefits to Lender

- n Loans may be used towards Community Reinvestment Act requirements.
- n Guarantee rate is usually 80% of loan amount. Under special circumstances, a 90% guarantee is available.
- n Excellent public relations in local communities by demonstrating lender's interest in funding local community projects.



- n Variable-rate loans may be used to reduce lender risk from interest fluctuation.
- n Lender may charge different rates on guaranteed and non-guaranteed portions of the loan.
- n Lender’s risk of loss is reduced by the percent of loan guarantee.
- n Loan stimulates related banking services to customers, such as checking and savings accounts.
- n Guaranteed portion of loan is secured by full faith and credit of U.S. Government.
- n Provides portfolio protection from:
 - *Temporary financial problems, such as natural disasters, adverse economic trends, reduced use of facilities, etc.*
 - *Major reorganizations due to enlargements, bankruptcy, death of principals operating and managing facility, etc.*
 - *Decline in collateral value due to adverse economic trends.*
 - *Accelerated depreciation and inherent risk associated with highly specialized facilities.*
- n *Guaranteed loans may be sold on the secondary market — lender retains interest rate margin for servicing and increases yield on the amount of loan retained. See example below:*

Approximate yield on fixed rate loan

| | |
|-------------------------------------|-----------------|
| AMOUNT OF LOAN | \$1,000,000 |
| PORTION SOLD (80%) | \$800,000 |
| INVESTED FUNDS | \$200,000 |
| LOAN INTEREST RATE | 10.00% |
| RATE PAID ON PORTION SOLD | 9.00% |
| SERVICING FEE ON AMOUNT SOLD | 1.00% |
| PRIME RATE | 8.00% |
| | |
| INCOME — 1% ON \$800,000 | \$8,000 |
| <i>10% on \$200,000</i> | <i>\$20,000</i> |
| TOTAL INCOME | \$28,000 |
| | |
| APPROXIMATE YIELD ON INVESTED FUNDS | 14.00% |

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- n Lender can use required deposit reserves to fund guaranteed portion of loan.
 - n Guaranteed portion of loan does not count against legal lending limits.

Benefits for the Customer

- n Customer is able to obtain more timely financing of project, thereby reducing inflationary increases in construction cost.
- n Customer establishes loan history with a commercial lender, not the Government.
- n Lender can offer better terms to customer, especially when loan is sold on secondary market.
- n The customer may combine guarantee funds with other Federal, State, and local funds.

Benefits for the Community

- n Adequate local services attract residential and commercial development.
- n Tax base can increase with new development.
- n Insurance rates can decrease with better fire protection.
- n Community quality of life improved

Assistance Available for Loan Processing

- n Aside from Agency application forms, the lender uses their own documents to make and service loans.
 - n Agency staff is available to assist lenders to prepare documents required for guaranteed loan processing.
 - n Agency has technical staff who review construction plans and environmental impact statements for the benefit of the Government.
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**For additional information
contact your local USDARural
Development office.**

—or—

USDA Rural Housing Service,
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Washington, D.C. 20250
TEL (202) 720-1490
FAX (202) 690-0471

Web Site

<http://www.rurdev.usda.gov>

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