



Committed to the future of rural communities.

# Partnering with USDA to Finance Rural Community Facilities

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USDA RURAL DEVELOPMENT

## Community Facilities Guaranteed Loan Program

USDA's Rural Development (RD) program provides a credit enhancement to help finance community facilities in rural areas with a population of up to 20,000. Through the Community Facilities Guaranteed Loan Program, RD guarantees up to 90 percent of loss of principal and interest on loans made to develop or improve essential community facilities in rural areas. We look forward to working with you to help develop a **variety** of projects, such as:

### Health Care

Clinics  
Assisted Living  
Hospitals

### Cultural and Educational

Private Schools  
Museums

### Fire, Rescue and Public Safety

Fire Stations  
Rescue and Ambulance  
Services

### Public Buildings

Child Care  
Community Centers

Eligible Lenders include Federal or State chartered banks, thrifts, the Bank for Cooperatives, National Rural Utilities Cooperative Finance Corporation, Farm Credit System, insurance companies regulated by a State or National insurance regulatory agency, and State bond banks or State bond pools. Eligible Lenders 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. A Lender of Record must have the capacity and authority to adequately

service loans through maturity for which a guarantee is requested. Under some circumstances, nontraditional lenders may be deemed eligible to participate. Please contact your USDA Rural Development Office on how to apply for Lender eligibility determination.

Eligible applicants are municipalities, counties, special purpose districts, nonprofits, and tribal governments. Eligible nonprofits, which are broadly defined, must have significant ties to the local rural community, have a broad membership base, be controlled by members of the community, and have articles of incorporation and by-laws. Applicants must have the legal authority to borrow and repay loans, pledge security for loans, and construct, operate, and maintain facilities. They must also have the ability to manage the facilities effectively.

Benefits of lender participation include loan guarantee against loss for up to 90 percent of the loss; reduction in capitalization requirements; loans are able to be sold on the secondary market; lenders use of their own forms, loan documents, and security instruments; no maximum loan limit- the amount is determined based upon project feasibility, repayment ability, and reasonable

project cost; only a onetime 1% USDA guarantee fee assessed against the guaranteed portion, with no annual renewal fee; rates and terms are negotiated between the Lender and the borrower; typically, loan approval occurs 30-60 days after the receipt of a completed application.

Typical applications are approved using the following steps:

**Step 1:** Lender contacts USDA and is encouraged to file an application.

**Step 2:** Lender submits application to USDA.

**Step 3:** USDA arranges a meeting at the project site.

**Step 4:** The environmental review process is completed  
**Step 5:** If the application meets the program guidelines, the request is approved and a "Conditional Commitment for Guarantee" is sent to the lender.

**Step 6:** After receiving the Conditional Commitment, the loan is closed and construction begins.

**Step 7:** Once construction is complete and all of the conditions have been met, the lender requests the Loan Note Guarantee.

**Step 8:** USDA issues the Loan Note Guarantee and the loan is serviced. (NOTE: All Loans \$3 million and greater require approval by our National Office)

<b>Product Type</b>	Primarily a commercial real estate loan but can also be used for fixtures, furniture, and equipment. Banks typically assign responsibility for the community facility program to a commercial real estate department or government lending department. RD is not involved in the construction phase of a project unless direct loan funds are included in the permanent financing of the project.
<b>Lender Eligibility</b>	Banks that are regulated by federal or state bank regulatory agencies are eligible for the program. Lenders may charge a fee for the servicing.
<b>Lender Roles</b>	In addition to making RD-guaranteed community facility loans, banks may make construction loans to nonprofits or governmental agencies that receive community facility direct loans and may refinance community facility direct loans.
<b>Underwriting</b>	No minimum equity is required, and the maximum loan limit is determined by project feasibility. The interest rate is negotiable between the lender and borrower and may be fixed or variable. The lender may charge a pre-payment penalty.
<b>Lender Requirements</b>	The lender must retain a minimum of 5% of the total loan amount. This amount must be part of the unguaranteed portion of the loan. The lender is responsible for servicing the loan.
<b>Repayment</b>	The repayment period is limited to the useful life of the facility, but the maximum term for all loans in the community facilities program is 40 years. (Guaranteed community facilities real estate loans tend to be for 15 to 20 years, while loans for fixtures, furniture, and equipment tend to be for 5 to 10 years). Loan repayment must be based on tax assessments, revenues, fees or other sources sufficient for the operation and maintenance, reserves, and debt retirement. Financial feasibility studies prepared by an independent consultant are normally required for start-up facilities or those that will result in a significant change in the borrower's financial operations.
<b>Security</b>	The lender determines acceptable security, which is approved by RD. Such security can include real estate, equipment, accounts receivable, and insurance income. Tax-exempt notes or bonds cannot be used for guaranteed loans. If the real estate appraised value is less than the loan amount, RD is willing to guarantee a loan based on sound security, repayment ability, and financial projections. RD is also willing to subordinate a direct loan to a guaranteed loan.
<b>Guarantee</b>	Guarantees are backed by the full faith and credit of the U.S. government and can be sold on the secondary market. They are issued by the Rural Housing Service of USDA Rural Development; the agency pays cash in the event of a loss. Guarantees cover up to 90% of any loss of principal or interest. The guarantee fee which is 1% of the guaranteed portion of the loan, is paid by the lender and may be passed on to the borrower.
<b>Documentation</b>	Loans are primarily processed on the lender's forms. The lender determines financial-reporting requirements. If a pre-application is submitted, a borrower provides historical financial statements, financial projections, organizational documents, information on existing debt, budgets, site information, information on potential environmental issues that may affect project viability, and evidence of public support. A bank provides an application for federal assistance and certification of the need for a guarantee. If a full application is submitted, the bank provides an application for loan and guarantee, a proposed security package, environmental information, and its credit analysis. The borrower provides cost estimate, copies of permits, certifications, and recommendations of appropriate regulatory agencies, financial feasibility reports, and preliminary engineering and architectural reports.
<b>Applicant Requirements</b>	Applicants must be financially sound and unable to obtain needed funds from other sources at reasonable rates and terms and must have the ability to organize and manage the facility effectively. They must demonstrate that the proposed community facility has substantial community support.
<b>Proceeds</b>	Loan funds may be used to construct, enlarge or improve community facilities and may include land acquisition costs, professional fees, and purchase of equipment. An existing debt may be an eligible purpose if the refinancing is less than 50% of the total loan and is associated with the project facility.
<b>Application Processing</b>	Applications are handled by USDA Rural Development field offices. After a pre-application is submitted, about 45 days are required to determine applicant eligibility, project priority status, and funding availability. After a full application is submitted, the time needed to process the application depends on the scope of the project, environmental review, and legal issues.
<b>CRA Test</b>	For specific information on CRA eligibility, lenders should contact their respective regulatory agency.

<b>Application Forms</b>	<p><a href="#">SF 424.2</a> Application for Federal Assistance</p> <p><a href="#">RD 1940-20</a> Request for Environmental Information</p> <p><a href="#">RD 3575-1</a> Application for Loan and Guarantee</p>
<b>Approval Forms</b>	<p><a href="#">RD 449-14</a> Conditional Commitment for Guarantee</p> <p><a href="#">RD 1940-3</a> Request for Obligation of Funds - Guaranteed Loans</p>
<b>Closing Forms</b>	<p><a href="#">RD 449-34</a> Loan Note Guarantee</p> <p><a href="#">RD 449-35</a> Lender's Agreement</p> <p><a href="#">RD 1980-19</a> Guaranteed Loan Closing Report</p>
<b>Servicing Forms</b>	<p><a href="#">RD 1980-41</a> Guaranteed Loan Status Report</p> <p><a href="#">RD 449-30</a> Loan Note Guarantee-Report of Loss</p> <p><a href="#">RD 449-36</a> Assignment Guarantee Agreement</p> <p><a href="#">RD 1980-44</a> Guaranteed Loan Borrower Default Status</p>
<b>All Forms</b>	<p><b>For all forms, visit our web site at <a href="http://forms.sc.egov.usda.gov/eforms/formsearchservlet">http://forms.sc.egov.usda.gov/eforms/formsearchservlet</a></b></p> <p><b>Or: <a href="http://www.rurdev.usda.gov/regs/formstoc.html#1900">http://www.rurdev.usda.gov/regs/formstoc.html#1900</a></b></p>



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