



United States
Department of
Agriculture

Rural
Development



COMMUNITY FACILITIES GUARANTEED LOAN PROGRAM

Lender's Handbook

Introduction

Through USDA Rural Development's **Community Facility (CF) Guaranteed Loan Program**, we partner with private lenders to finance public facilities in rural areas.

To assist lenders in utilizing the program, we are pleased to provide you with this Lender's Handbook. It contains information about the program, the advantages of utilizing the program, as well as streamlined processing guides.

We can also arrange to give a presentation about the program to you in your office. We look forward to working with you to help develop a **variety** of projects, such as:

Health Care

- ✓ Health Clinics
- ✓ Assisted and Skilled Living Facilities
- ✓ Hospitals
- ✓ Mental Health Providers
- ✓ Medical Rehabilitation
- ✓ Group Homes for People with Disabilities
- ✓ Mobile Transportation Units and Telemedicine

Fire, Rescue and Public Safety

- ✓ Fire Department Buildings
- ✓ Fire Trucks
- ✓ Fire Protection Equipment
- ✓ Rescue and Ambulance Facilities and Vehicles
- ✓ Equipment and Vehicles
- ✓ Early Warning Systems
- ✓ Civil Defense Buildings
- ✓ Police Stations, Vehicles, and Jails

Educational & Cultural

- ✓ Schools
- ✓ Community Colleges
- ✓ Charter Schools
- ✓ Communication Centers
- ✓ Vocational Schools
- ✓ Libraries
- ✓ Dormitories

Community Support Services

- ✓ Child Care
- ✓ Adult Daycare
- ✓ Food Processing, Storage, Distribution Centers
- ✓ Homes for At-Risk Youths
- ✓ Homeless Shelters
- ✓ Multipurpose Community Centers

Public Buildings/ Infrastructure

- ✓ City Halls
- ✓ Court Houses
- ✓ Street Improvements
- ✓ Bridges
- ✓ Maintenance Equipment
- ✓ City Bus Services
- ✓ Municipal Garages
- ✓ Port Authorities
- ✓ Airport Facilities
- ✓ Dams, Drainage, and Levee Districts

Program Overview

“Providing up to a 90% guarantee to lenders for financing essential community facilities”

ELIGIBILITY

Eligible Entities: Funds are available to public bodies, not-for-profit organizations, and Indian tribes.

Eligible Areas: Loans may be made in a city, town, or unincorporated area that has a population of not more than 20,000 inhabitants. Data from the most recent decennial census will be used in determining populations.

Eligible Lenders: 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.

RATES, TERMS, AND FEES

Rates: The applicant and the lender negotiate the interest rate. The interest rate may be either fixed or variable. Variable rates must be tied to a published index and may not adjust more than quarterly.

Terms: 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.

Fees: Rural Development charges the lender a guarantee fee, which may be passed on to the borrower and is normally included in the loan. The guarantee fee is calculated on one-percent (1%) of the guarantee amount. The one-time guarantee fee is paid when the Loan Note Guarantee is requested. There is no annual renewal fee.

COLLATERAL

Borrowers must pledge sufficient assets to ensure repayment of the loan. The security may include any combination of the following: real estate,

machinery & equipment, assured income, or accounts receivable. Tax-exempt notes or bonds cannot be used as security for a guaranteed loan.

USE OF LOAN PROCEEDS

Loan funds from a CF guaranteed loan may be used to construct, enlarge, or otherwise improve community facilities for healthcare, public safety, and public services. Most project costs are eligible including:

- Construction (new or renovation)
- Land
- Legal, Architectural, or other related fees
- Equipment and Fixtures

Refinancing is limited to less than 50% of the total loan, and the debt must have been incurred for the facility being financed. Generally, working capital is not an eligible expense; however, some initial operating expenses may be included in the loan.

GENERAL REQUIREMENTS

Feasibility: 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.

Environmental: Facilities financed with these funds are subject to review under the National Environmental Policy Act (NEPA). The Agency will provide guidance on the environmental review process.

FUNDING AVAILABILITY

Guaranteed financing remains a priority for USDA Rural Development, as guaranteed loan funds generate a multiplier effect on congressional budget authority and the tax payer's dollars and allows USDA to invest in more rural communities and essential community facilities than direct loan or grant funds.

Lender Benefits

Guaranteed Community Facility financings result in excellent public relations with the community. As the lender is providing financing for community projects, there is a much higher probability for additional financing within the community from business development generated through the infrastructure enhancement and stability.

- Loans are guaranteed by the USDA against loss for up to 90 percent of the loss.
- Guaranteed Community Facilities loans are eligible to meet CRA (Community Reinvestment Act) requirements of Commercial Banks and Savings & Loan institutions.
- Reduction in capitalization requirements: Once the guarantee is in place, the guaranteed portion carries a risk weighting of 20% (i.e. Assuming a capital target of 10%: \$1,000,000 guaranteed portion X 20% risk weighting X 10% capital target = \$20,000 capital allocation vs. \$100,000 capital allocation without the guarantee).
- Loans may be sold on the secondary market through an assignment of guarantee, increasing the Lender of Record's return on investment. Secondary Market purchase of the guaranteed portion carries a risk weighting of 0%. (i.e. Assuming a capital target of 10%: \$1,000,000 X 0% risk weighting X 10% capital target = \$0 capital allocation vs. \$100,000 capital allocation without the guarantee).
- Lenders of Record use their own forms, loan documents, and security instruments.
- There is no maximum loan limit; the amount is determined based upon project feasibility, repayment ability, and reasonable project cost; however, when demand is high, projects requiring less budget authority will take precedence over substantially larger requests.
- The only USDA fee is a one-time 1% guarantee fee assessed against the guaranteed portion, with no annual renewal fee. This fee is payable upon the release of the USDA loan note guarantee. (Face Amount X 90% Guaranteed X 1% Guarantee Fee).
- Rates and terms are flexible, and are negotiated between the Lender of Record and the borrower. The Lender of Record may split the interest rates charging a higher rate for the non-guaranteed portion than for the guaranteed portion.
- Typically, loan approval occurs 30-60 days after the receipt of a completed application.

The Application Process

The Community Facilities Guaranteed Loan Program is a lender-driven program. When a lender is considering a loan or bond to a nonprofit in a rural area, we encourage you to contact us to discuss the project on an informal basis. We can at least give a tentative indication as to the general eligibility of the project for a guarantee.

The lender has the option of completing a full application (without a preapplication) or requesting an eligibility determination by submitting a preapplication. When a preapplication is submitted, USDA will respond to the lender with an eligibility determination and request that a full application be submitted. The preapplication/application requires information from both the lender and the applicant.

Only two Agency forms are required with the submission of a full application . . . (see Page 7). You will find the forms (most in a fillable version) available on the web at: <http://forms.sc.egov.usda/eforms/mainervlet> or <http://www.rurdev.usda.gov/regs/formstoc.html>

The following steps are how a typical application would be approved:

Step 1: Lender of Record and borrower submit joint pre-application to determine eligibility.

Step 2: RD field staff meets with all parties at project site (typically within 15 days) to make a preliminary eligibility determination and address any environmental issues.

Step 3: The Lender of Record and Borrower submit a complete application.

Step 4: Simultaneously, RD conducts a financial credit evaluation and an environmental assessment.

Step 5: Typically, issuance of the Conditional Commitment for Guarantee takes approximately 30-60 days from the date of a complete application, depending upon the nature, scope, and complexity of the project. .

Step 6: If approved, RD obligates funds and issues a Conditional Commitment for Guarantee.

Step 7: The Lender of Record then provides the interim construction financing for development of the project.

Step 8: After construction is completed and the facility is operational, the Lender of Record requests RD to review the completed project and, if acceptable provide the Loan Note Guarantee.

Step 9: RD verifies that conditions are met and issues the Loan Note Guarantee.

(Note: Lenders of Record may submit a complete application instead of a pre-application; however the pre-application provides some positive feedback to the community.)

Contents of a CF Guaranteed Loan Preapplication (optional)

Lenders that wish to obtain an eligibility determination on a CF Guaranteed Loan should provide the following preapplication information to USDA Rural Development:

- 1. Form SF 424.2, Application for Federal Assistance.**
- 2. Cover letter from lender indicating it is not willing to fund the proposed project without the guarantee.**
- 3. Historical (audits) and projected financial statements.**
- 4. Applicant's organization documents (Articles of Incorporation and By-laws) and a list of the Board of Directors/Officers.**
- 5. Copy of any debt instrument for which the applicant is currently liable.**
- 6. Proposed sources and uses of funds.**
- 7. Site Information (including location).**
- 8. Evidence of Community Support from the affected local government body.**

Contents of a CF Guaranteed Loan Application

Lenders that have been encouraged by USDA to apply must submit the following information.

- 1. Form RD 3575-1, Application for Loan Guarantee.**
- 2. Applicant's organizational documents (Articles of Incorporation and By-laws) and a list of the Board of Directors/Officers.**
- 3. Cover letter from lender indicating it is not willing to fund the proposed project without the guarantee.**
- 4. Evidence of community support from the affected local government body.**
- 5. Current and previous year's financial and income statements.**
- 6. Projected income statement.**
- 7. Narrative statement describing organization's services, scope of operation, geographical area served, and any management agreements or leases.**
- 8. Copy of the proposed loan agreement.**
- 9. Form RD 1940-20, Request for Environmental Information.**
- 10. Preliminary plans and cost estimates (including contingency funds).**
- 11. Projected sources and uses of funds.**
- 12. Lender's credit analysis.**
- 13. Appraisal report or value of security available for loan.**
- 14. Financial feasibility report (if required by USDA).**
- 15. Any required Regulatory Certifications (Certificate of Need, etc.)**

Request for Loan Note Guarantee

Lenders are to submit this certification, with the proper attachments, when requesting the Loan Note Guarantee from USDA Rural Development.

Borrower's Name:	Closing Date:
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1. No major changes have been made in the lender's loan conditions and requirements since submission of the application (except those approved in the interim by the Agency in writing).
2. All insurance requirements are in effect.
3. Truth in lending requirements have been met.
4. All equal employment opportunity and equal credit and nondiscrimination requirements have been met.
5. The loan has been properly closed and the required security instruments have been obtained.
6. Liens have been perfected and priorities are consistent with requirements of the Conditional Commitment.
7. Loan proceeds have been disbursed for purposes and in amounts consistent with the Conditional Commitment and as specified on the loan application.
8. There have been no material adverse changes in the borrower's condition, financial or otherwise, since submission of the application.
9. The lender understands and will meet the requirements of the Debt Collection Act (chapter 37 of title 31 of the United States Code).
10. All environmental mitigation measures have been complied with (if any).
11. All other requirements specified in the Conditional Commitment have been met.

The undersigned lender certifies that the above requirements have been met.

Signature of Lender's Representative	Date
Name and Title	
<p>Note: Along with this form, submit the following, as appropriate:</p> <ol style="list-style-type: none"> a. Guarantee Fee b. Copy of executed promissory note and loan agreement. c. Security Instruments (Deed of Trust, UCC-1, etc.) Include Title Insurance or loan closing opinion to verify lien position. d. Form RD 1980-19, Guaranteed Loan Closing Report. e. Form RD 449-35, Lender's Agreement f. Final Inspection/Certificate of Occupancy. g. Advise the Agency of plans to sell or assign any part of the loan h. Any other documentation required in the Conditional Commitment. 	

Forms Reference Guide

Application Forms

- SF 424.2 Application for Federal Assistance (for pre-application only)
- RD 1940-20 Request for Environmental Information
- RD 3575-1 Application for Loan and Guarantee

Approval Forms

- RD 449-14 Conditional Commitment for Guarantee
- RD 1940-3 Request for Obligation of Funds - Guaranteed Loans

Closing Forms

- RD 449-34 Loan Note Guarantee
- RD 449-35 Lender's Agreement
- RD 1980-19 Guaranteed Loan Closing Report

Servicing Forms

- RD 1980-41 Guaranteed Loan Status Report
- RD 449-30 Loan Note Guarantee-Report of Loss
- RD 449-36 Assignment Guarantee Agreement
- RD 1980-7 Notification of Transfer and Assumption of a Guaranteed Loan
- RD 1980-44 Guaranteed Loan Borrower Default Status

<p>For all forms, visit our web site at http://forms.sc.egov.usda.gov/eforms/mainervlet or http://www.rur.dev.usda.gov/regs/formstoc.html</p>
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To file a complaint of discrimination, write to USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, DC 20250-9410 or call (800) 795-3272 (voice) or (202) 720-6382 (TDD). USDA is an equal opportunity provider, employer, and lender.

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