

UNITED STATES DEPARTMENT OF AGRICULTURE

RURAL DEVELOPMENT



Guaranteed Community Facility Programs



◆ OBJECTIVE

- ◆ To improve, develop, or finance water or waste disposal and other essential community facilities in rural areas. This purpose is achieved through bolstering the existing private credit structure through the guarantee of quality loans which provide lasting community benefits. It is **NOT** intended that the guarantee authority be used for marginal or substandard loans or to “bail out” lenders having such loans.

◆ PROGRAMS COVERED

- ◆ Water and Waste Disposal (including Solid Waste)
- ◆ Essential Community Facilities

◆ ELIGIBLE APPLICANTS*

- ◆ Towns and Cities
- ◆ Counties
- ◆ Quasi-municipal Districts
- ◆ Not-for-Profit Corporations
- ◆ Indian Tribes

*The lender must certify in writing that it would not make the loan without Rural Development guarantee.

◆ AREAS SERVED

- ◆ Essential Community Facilities—20,000 or less population
 - ◆ Ineligible Areas* Auburn, Bangor, Biddeford, Brunswick, Lewiston, Portland, Sanford, and South Portland
- * Towns listed as ineligible may have certain eligible rural areas within their boundaries.

◆ LOAN PURPOSES

- ◆ Legal and Administrative fees
- ◆ Equipment Purchase
- ◆ Telecommunication Equipment
- ◆ Initial O&M (operating and maintenance) expense
- ◆ Purchase—when necessary to prevent loss of facility
- ◆ Refinance—as long as it is a minor part of the loan
- ◆ Land Purchase
- ◆ Interest on interim financing
- ◆ Construction
- ◆ Architectural Engineering (A/E) fees
- ◆ Contingency
- ◆ Recreational Facilities

◆ TYPES OF PROJECTS

- ◆ Not-for-Profit Water or Waste Corporations
- ◆ Schools, other than state funded facilities
- ◆ Group and Waiver Homes/Assisted Living Facilities
- ◆ Telecommunication Equipment
- ◆ Fire, Rescue, and Public Safety
- ◆ Natural Gas Distribution Systems
- ◆ Hospitals and Clinics
- ◆ Nursing Homes
- ◆ Clinics
- ◆ Recreational Facilities
- ◆ Community Facilities:
Streets, Roads, Bridges

◆ RATES AND TERMS

- ◆ Negotiated between lender and borrower (subject to Rural Development approval),
- ◆ Rural Development considers secondary market when reviewing rates,
- ◆ Terms up to forty-years or useful life of security, whichever is less, (thirty-years maximum for municipalities) - **cannot guarantee tax-exempt**,
- ◆ Either fixed or variable rates,
- ◆ One percent maximum servicing fee on guaranteed loan (assessed by the lenders),
- ◆ May leverage with other funds, including Rural Development direct loan,
- ◆ Variable rates must be tied to a published, recognized base rate,
- ◆ **Cannot increase more than quarterly**,
- ◆ May have differing interest rates on the guaranteed and unguaranteed portions provided the rate on the unguaranteed portion does not exceed currently typical rates and the rate on the guaranteed portion will not exceed the rate on the unguaranteed portion,
- ◆ Payment of interest upon interest is not allowed.

◆ MAXIMUM GUARANTEE

- ◆ Percentage of guarantee is negotiated between lender and the agency, the maximum guarantee is 90 percent of eligible loss,
- ◆ Guaranteed portion is saleable on secondary market,
- ◆ Bank must hold at least five percent of the loan,
- ◆ Fee—one percent of guaranteed portion, paid to Rural Development at closing,
- ◆ Bank must be unwilling to make loan without guarantee,
- ◆ Personal guarantees are not required.

◆ SECURITY*

- ◆ General Obligations Bonds
- ◆ Estate Mortgages
- ◆ Financing Statement
- ◆ Revenue Bonds
- ◆ Assignment of Income

*All security must secure the entire loan. Rural Development will consider parity lien position when loans other than Rural Development direct loans are involved.

◆ EQUITY AND COLLATERAL REQUIREMENTS

- ◆ May loan up to one hundred percent of appraised value of security,
- ◆ No minimum equity requirement.

◆ SPECIAL REQUIREMENTS

- ◆ State Planning Office can identify income areas of communities such as Enumeration Districts.
- ◆ Bank can provide appraisal for loans under \$1 million. Independent third-party appraisals are required for loans over \$1 million for essential Community Facilities.
- ◆ Feasibility studies required for most large loans (\$2 million plus). Engineers/Architects and Accounting firms can usually provide feasibility studies.
- ◆ Cannot guarantee tax exempt bonds.
- ◆ Audits are required for all loans when gross annual income exceeds \$300,000, or when federal financial assistance exceeds \$300,000.
- ◆ Certificate of Need, PUC approval, DEP approval, and other regulatory approvals are often required for these types of projects.
- ◆ Rural Development Office of General Counsel (OGC) must review closing documents prior to loan closing.

For more information regarding the Rural Development Guaranteed Community Programs, please contact the **Rural Development State Office**:

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