

UNNUMBERED LETTERS ISSUED FOR THE NOVEMBER OF 2014

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United States Department of Agriculture

MEMORANDUM

DATE: November 10, 2014

TO: All Rural Development
Employees Rural Development

FROM: Doug O'Brien /s/ *Patrice Kunesh* for
DOB Acting Under Secretary
Rural Development

SUBJECT: Receipt for Service Implementation and Training

This unnumbered letter provides general guidelines for staff training and implementation of the Receipt for Service provision of the Agricultural Act of 2014. The Farm Service Agency (FSA), Natural Resources Conservation Service (NRCS), and Rural Development (RD) Mission Area will begin using webRFS to issue receipts to customers on December 1, 2014.

Background:

The Food, Conservation, and Energy Act of 2008 (2008 Farm Bill), Section 14003 (7 U.S.C. 2279-1(e)) required FSA, NRCS, and RD to issue a receipt, when requested, for service or denial of service to a current or prospective producer or landowner. Section 12204 of the Agricultural Act of 2014 amended this provision to read:

“In any case in which a current or prospective producer or landowner, in person or in writing, requests from the Farm Service Agency, the Natural Resources Conservation Service, or an agency of the Rural Development Mission Area any benefit or service offered by the Department to agricultural producers or landowners, the Secretary shall issue, on the date of the request, a receipt to the producer or landowner that contains -

- (1) the date, place, and subject of the request; and
- (2) the action taken, not taken, or recommended to the producer or landowner.

Because of these changes, FSA, NRCS, and RD must provide a receipt when a current or prospective producer or landowner requests a USDA benefit or service.

Implementation:

To facilitate provision of receipts and implement this requirement, FSA, NRCS, and RD have worked together to develop a web-based system called webRFS. This tool will be used by all three agencies and will be implemented in phases.

During Phase I.

- All Rural Development employees must issue a receipt to all customers seeking information about the Farm Labor Housing Loan and Grant Program, the Rural Energy for America Program, the Small, Socially Disadvantaged Producer Grant Program, or the Value Added Producer Grant Program. *Note: Instructions for each program affected will be updated.*
- Customers who inquire about other programs shall receive a receipt upon request.
- Other USDA/Federal agencies, lenders and individuals/entities with whom RD has a current MOU or MOA, are not considered agricultural producers and landowners.
- During Phase I, Receipts must be issued for inquiries or services provided in person or in writing (via e-mail, mail, or fax). It does not include requests made by telephone.

After full implementation of Phase I, USDA will evaluate the effectiveness of the webRFS tool and any changes needed to respond to comments or questions from USDA stakeholders and employees. This evaluation will be used to determine any additional action required.

Rural Development employees are now able to access webRFS at:
<https://rfs.sc.egov.usda.gov/rfs/>.

The new webRFS tool database replaces the current Receipt for Service form (AD-2088) and the Departmental Regulation will be updated to reflect this change. RD must discontinue use of the AD-2088 and instead utilize webRFS to record information and provide customers with a receipt.

Training:

All RD employees must complete webRFS training, including AgLearn certification, no later than November 28, 2014. This training will be made available during the week of November 10, 2014.

Employees hired after December 1, 2014 will be required to complete the training within the first 30 days of their employment.

FSA, NRCS, and RD will begin using webRFS to issue receipts to customers on December 1, 2014.

For Questions regarding this Unnumbered Letter or help with technical problems or questions concerning the training content, email Michael Mathews at michael.mathews@osec.usda.gov.

EXPIRATION DATE:
November 10, 2015

FILING INSTRUCTIONS:
Administrative/Other Programs

November 13, 2014

TO: State Directors
Rural
Development
ATTN: Business Programs Directors
SUBJECT: Rural Business and Cooperative Programs
Performance and Accountability Report Performance Measures

Purpose:

The purpose of this Unnumbered Letter (UL) is to continue to provide guidance regarding recording and verifying Rural Business-Cooperative Service (RBS) Performance and Accountability Report (PAR) performance measures and other measures that show the impacts and outcomes of RBS programs. This UL replaces previous guidance issued on January 18, 2013.

Background:

RBS's performance is measured primarily through businesses assisted, job creation and savings, and energy generation and savings.

The Agency changed the policy for reporting jobs created/saved and businesses assisted in fiscal year (FY) 2013. As a result of completing the fiscal year end performance report for FY 2013, it was determined that further clarification is needed to ensure there is consistency in reporting performance measures.

Businesses assisted, jobs created/saved, and energy generation/savings are the key performance measures for RBS when reporting economic development impacts to the Secretary. These performance measures receive interest and attention from Congress, the Office of Management and Budget, and the general public. The numbers RBS reports annually are scrutinized when the Agency's performance and budget are being assessed. It is essential that the data being reported is accurate, consistent, and verifiable.

EXPIRATION DATE:
November 30, 2015

FILING INSTRUCTIONS:
Community/Business Programs

Implementation:

The program performance measures addressed in this UL include the number of jobs created or saved, the number of businesses and the types of enterprises assisted, the amount of energy generated or saved, the number of cooperatives and businesses incorporated, the number of groups assisted, and the number of plans completed. Program specific performance measures must be completed before the loan or grant is obligated. Attachment 1 specifies which performance measures apply to each of the RBS programs.

A. Businesses Assisted

The number of businesses assisted will be estimated by the applicant in its application and verified by the Agency after the project is in operation. The number of businesses assisted is a tally of the business enterprises and entrepreneurs which are **directly** benefiting from or receiving assistance from the project funded or financed by RBS programs. The Agency will only record businesses that have been estimated and who ultimately can be identified and **verified** after project completion. Construction contractors on development projects, third-party suppliers, service contracts, and third-party marketing and distribution enterprises are not considered businesses assisted.

The term “businesses” is a primary measure and will be used as a common term to describe all sizes and types of business entities, enterprises, organizations, and individual entrepreneurs. This general definition of the term “businesses” will be applied consistently across all RBS programs. The terms “farmers/ranchers”, “small businesses”, “individuals”, and “cooperatives” will be used to further describe the “businesses” and will be used as a secondary measure. **Generally the number of businesses assisted will not be less than the total number of secondary measures when recording the data into the Guaranteed Loan System (GLS).** However, there may be situations where the secondary measures are larger than the business assisted. The following are several examples:

- **Energy Program** – There may be times when the secondary measures maybe more than the number of businesses assisted. For example, if three farmers own a LLC and constructs an anaerobic digester, the LLC is counted as the business. However due to the need to report how many farmers assisted, three would be completed in the farmer/rancher field resulting in having more secondary numbers than the businesses assisted. The same could be applied to a group of farmers owning a wind farm as a corporation.
- **Local Foods Initiative** – If the project meets the local foods initiative, the secondary measure of farmers/ranchers must be completed. For example, a Business & Industry (B&I) loan is to “Come and Get It” corporation and meets the definition of helping out local foods. The local foods initiative involves farmers who provide the food product. The application should have the number of farmers who are supplying the food product which must be completed in GLS.

To determine if the businesses assisted are small businesses, they must meet the Small Business Administration (SBA) definition of a small business. SBA defines a small business concern as one that is independently owned and operated, is organized for profit, and is not dominant in its field. Depending on the industry, size standard eligibility is based on the average number of employees for the preceding 12 months or on sales volume averaged over a 3-year period. Please review the North American Industrial Classification System code provided by the borrower to ensure that it is correct before making the determination. The following link will connect to the SBA webpage: <http://www.sba.gov/content/what-sbas-definition-small-business-concern>. **Please note that this is a significant change for the B&I guaranteed loan program.**

1. **Direct Assistance Programs.** Direct assistance includes, but is not limited to, borrowers of B&I and energy guaranteed loans, tenants of B&I borrowers meeting certain conditions, and the grantees for Rural Energy for America Program (REAP) renewable energy system and energy efficiency improvement grants and Value Added Producer Grant (VAPG) planning or working capital grants.

Each borrower or grantee will be recorded in GLS as a “business assisted” **and** further described as “farmers/ranchers,” “small businesses,” “individuals,” or “cooperatives” as appropriate. The number of businesses assisted will always be one, except in cases where the recipient’s facility houses more than one business. An example is a real estate holding company that leases its facility to third-party entities. In this example the real estate holding company develops a strip mall and five tenants (businesses) have a lease in place at the time of application to occupy space in the mall. In this case, the total number of businesses assisted that should be entered into GLS would be six. If applicable, these businesses should also be further described as “farmers/ranchers,” “small businesses,” “individuals,” or “cooperatives” as appropriate.

2. **Technical Assistance Programs.** Technical assistance programs provide funding to a grantee to conduct training, energy audits, renewable energy development assistance, marketing assistance, or planning assistance and the business, cooperative, or individual recipient of the assistance can be identified and verified. Each grantee will be recorded in GLS as a “business assisted” and any businesses they assist will also be counted as “businesses assisted.” The grantee and the recipients should be further described as “farmers/ranchers,” “small businesses,” “individuals,” or “cooperatives,” as appropriate. Training to aspiring entrepreneurs, such as basic business management, financial management, marketing, and business planning might provide essential skills but will not directly result in start-up of a business, therefore the business would not be counted for technical assistance programs.

3. Revolving Loan Fund (RLF) Programs. RLFs include programs where RBS provides funds to an intermediary that establishes a RLF. The intermediary lends the funds to ultimate recipients for use in their businesses. Each ultimate recipient will be recorded in GLS as a “business assisted” and further described as “farmers/ranchers,” “small businesses,” “individuals,” or “cooperatives,” as appropriate. The preliminary number of businesses assisted by these programs are the estimated number of ultimate recipients the intermediary will provide financial assistance. This information should be provided in their application.

4. **Business Incubators, Farmers Markets, and Infrastructure Projects.** Each borrower or grantee will be recorded in GLS as a “business assisted” and further described as “farmers/ranchers,” “small businesses,” “individuals,” or “cooperatives” as appropriate. The businesses assisted should also include the individual businesses that the borrower or grantee has a written commitment to occupy the space.

B. Jobs Created or Saved

Jobs are directly created or saved by the “businesses assisted” as discussed above. Once the business or businesses assisted have been identified, then the number of jobs created or saved by each business can be determined. The estimated number of jobs to be created or saved should be based on a typical year after the project is completed or the business is fully ramped up or the renewable energy system or energy efficiency system is stabilized. Generally, jobs are located at the project site; however, the jobs may be located off-site if they are employed by the “business assisted” and are directly related to the project. Do not include jobs located outside of the United States.

Not all projects will create or save jobs. Jobs that are considered indirect, such as construction contractors on development projects, third-party suppliers, service contracts, and third-party marketing and distribution enterprises are not included in the count.

Existing jobs can only be counted as jobs saved, if the recipient can document that the jobs would have been lost without the RBS financing or funding. **Please note that this represents a significant change from previous guidance.**

1. **Direct Assistance Programs.** All jobs created must be directly related to the project funded or financed by RBS programs. It is imperative that when reviewing the estimated numbers of jobs, please ensure the jobs are not indirect jobs created or saved and can be verified.

2. **Technical Assistance Programs.** Technical assistance, including training and planning projects, might not create or save jobs. Technical assistance or training to a business or entrepreneur to implement their business start-up will directly assist in creating jobs and should be counted. Training to aspiring entrepreneurs, such as basic business management, financial management, marketing, and business planning might provide essential skills but will not directly result in start-up of a business and creation of jobs, therefore the jobs would not be counted. Grants to provide energy audits and renewable energy development assistance to businesses may provide valuable information on how to save energy or incorporate renewable energy systems into their operations, but may not create or save any jobs for the business and should not be counted. Jobs created by the grantee to deliver technical assistance may be included in the job count if the new position is an employee of the grantee.
3. **Revolving Loan Fund Programs.** The jobs created or saved by ultimate recipients for their business must be directly related to the project funded or financed by the RLF over the life of the RLF. It is imperative that when reviewing the estimated numbers of jobs that they are not indirect jobs created and/or saved. The preliminary number of jobs created or saved by the RLF are the estimated numbers provided by the intermediary in their application.
4. **Business Incubators, Farmers Markets, and Infrastructure Projects.** The jobs created or saved must be directly related to the project or financial assistance. If the borrower or grantee creates a job to manage the project, that job would be included in the jobs created and/or saved by the businesses occupying the space.

C. Energy Generation or Savings

RBS programs that involve the installation or retrofitting of renewable energy systems or making energy efficiency improvements need to have energy information entered into GLS. REAP is not the only program that can report on energy generation or energy saving. Other programs, including but not limited to B&I, the Rural Economic Development Loan and Grant Program, and the Intermediary Relending Program may finance a project that generates or saves energy.

Projected energy generation or savings will be input into GLS prior to obligation, based on the information contained in the energy audit, energy assessment, technical report, feasibility study, or other documents submitted with the application. It is important that information entered prior to obligation is accurate. Energy Coordinators or engineers and architects for the State can assist with determining the correct information to be entered into GLS.

Renewable energy systems will be reported as energy generated. The energy generated should be the annual energy generation projected by the installation of the project.

Energy efficiency improvements will be reported as energy saved. The energy savings should be the annual energy saving projected by making the improvement.

D. Verifying Performance Measures

Lenders, intermediaries, and grantees will verify and report performance measures for their borrowers, recipients, or project to the Agency as outlined below: The initial verification should be recorded in GLS at the time the Loan Note Guarantee is issued, the Promissory Note, or Grant Agreement are executed and annually thereafter for the term indicated below.

1. **Direct Assistance Programs.** Grantees and lenders will verify and report the performance measures as required by the specific program (see Attachment 1).
2. **Technical Assistance Programs.** RBS will verify performance measures as reported through the grantee's quarterly or semi-annual project performance report. The final performance report will include the final verification of performance measures.
3. **Revolving Loan Fund Programs.** RBS staff will verify and record the cumulative number of jobs created and saved over the life of the RLF at the Facility/Project level. The number of verified jobs created and saved and the job count is the cumulative total number of jobs created/saved by the RLF over the life of the fund. Annually tally the number of projected jobs from the new ultimate recipient loans after the ultimate recipient project is completed and at full employment. Add the jobs to the existing job data in the "Facility Job Tracking" section of the GLS "BP Routine Servicing Action Information" screen. Add the jobs of each ultimate recipient loan once. Do not deduct decreases in jobs due to down-sizing and business closures by the ultimate recipient, or paid-in-full ultimate recipient loans, or other inactive ultimate recipient loans. Continue a cumulative number of jobs annually.
4. **Business Incubators, Farmers Markets and Infrastructure Projects.** RBS staff will verify and record the cumulative number of jobs created and saved until the borrower or grantee no longer operates the project. Any new business occupying the space will be added to the current number of jobs created and saved.

This unnumbered letter specifically addresses three performance measures. However, Secretary initiatives (i.e. local foods, biobased, outmigration) are also tracked in GLS and utilized in the Agency's annual performance. Thus, it is also important to enter data on initiatives into GLS accurately.

Please contact Diane Berger, Specialty Programs Division at 202-260-1508, if you have any questions regarding the guidance addressed in this unnumbered letter and RBS performance measures in general. Please direct questions regarding a specific program or specific project to the appropriate Division or program area. If you have any questions regarding GLS, please contact your State GLS point-of-contact or your regional RBS GLS Data Team Lead.

/s/ Lillian E. Salerno

Lillian E. Salerno
Administrator

Attachment

Program	Projected Performance Measures														Verification of Performance Measures		
	Business Assisted						# Jobs Created or saved	# Farmers or Ranchers Participating or benefiting	# Groups	# of plans accomplished	Increase in Business Revenue	Increase in Customer Base	Businesses Incorporated	Cooperatives Incorporated	Energy Savings & Generated	Verify all Projected Measures	Frequency and Term of Verification
	# Businesses Assisted: #Borrower/Grantee	# Businesses Includes Recipients	Which are;														
		# Farmers or Ranchers	# Small Businesses	# Individuals	# Cooperatives												
B&I Guarantee Loan	Y	Y ⁱ		Y	Y	Y	Y	Y ⁱ							Y ⁱ	Y	Annually, 3 full years from full ramp-up
9003 Guaranteed Loan	Y		Y	Y			Y								Y	Y	Annually, 3 full years from stabilization
REAP RES Loans/Grants	Y		Y	Y			Y								Y	Y	Annually, 3 full years from stabilization
REAP EEI Loans/Grants	Y		Y	Y			Y								Y	Y	Annually, 2 full years from completion
REAP EA/REDA	Y ^{iv}	Y	Y	Y			Y ^v		Y							Y	Semi-annual and final perform report
REAP Feasibility Study	Y		Y	Y			Y ^v		Y							Y	Semi-annual and final perform report
Biofuel Pmt Program (9005)														Y			None--actual used in process of pmt
RLF Projects ^{vi}		Y		Y	Y	Y	Y	Y ⁱ							Y ⁱⁱ	Y	Annually, each UR loan for 3 years ^{vii}
REDLG Loans		Y		Y	Y	Y	Y	Y ⁱ							Y ⁱⁱ	Y	Annually, 3 full years from full ramp-up
REDLG Grants		Y		Y	Y	Y	Y	Y ⁱ							Y ⁱⁱ	Y	Annually, 3 full years from full ramp-up
RBEG Equip or R/E		Y		Y	Y	Y	Y	Y ⁱ							Y ⁱⁱ	Y	Annually, 3 full years from full ramp-up
RMAP & RBEG Other ^{viii}	Y ⁱ	Y	Y	Y	Y	Y	Y									Y	Semi-annually, final w/final performance Report
VAPG	Y		Y	Y	Y	Y	Y	Y		Y	Y				Y ^x	Y	Semi-annually, final w/final performance Report
SSDPG	Y ⁱ	Y		Y		Y	Y ^v	Y ^x				-	-			Y	Semi-annually, final w/final performance Report
RCDG	Y ⁱ	Y		Y		Y	Y ^v		Y			Y	Y			Y	Semi-annually, final w/final performance Report
RBOG	Y ⁱ	Y		Y		Y	Y ^v		Y							Y	Quarterly, final w/final performance Report

ⁱ Tenants may be included in certain conditionsⁱⁱ Participants or beneficiaries of Local/Regional Foods projects and Renewable Energy projects ⁱⁱⁱ Renewable Energy Projects^{iv} Include the grantee if the grantee will employ staff to carry out the scope of work^v Include jobs created if the grantee will employ additional staff to carry out the scope of work ^{vi} IRP Loans, RMAP Loans, RBEG RLF and REDLG Grants. Excludes RMAP Grants and REDLG Loans

^{vii} The Intermediary will verify each Ultimate Recipient loan for three years. The Agency will verify the intermediary's lending activity (new UR loans) for the life of the fund.

^{viii} RBEG 'other' includes technical assistance, training, planning etc. It does not include RLF, and grant funds used for buildings, equipment, real estate or other property.

^{ix} VAPG working capital grants only

^x Should be the number of small, socially disadvantaged producers assisted for SSDPG.

November 18, 2014

TO: State Directors

ATTN: Area Directors
Area Specialist
Rural Housing Program Directors

FROM: Tony Hernandez /s/ *Tony Hernandez*
Administrator
Housing and Community Facilities Programs

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

The following interest rates, effective December 1, 2014, are reported as follows:

<u>Loan Type</u>	<u>Existing Rate</u>	<u>New Rate</u>
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ALL LOAN TYPES

Treasury Judgment Rate	0.100%	0.110%
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The new rate shown above is as of the week ending October 31, 2014. 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 *

RURAL HOUSING LOANS

Rural Housing (RH) 502 Very-Low or Low	3.625	3.375
Single Family Housing (SFH) Nonprogram	4.125	3.875
Rural Housing Site (RH-524), Non-Self-Help	3.625	3.375
Rural Rental Housing and Rural Cooperative Housing	3.625	3.375

EXPIRATION DATE:
December 31, 2014

FILING INSTRUCTIONS:
Administrative/Other Programs

* (http://www.federalreserve.gov/releases/h15/data/Weekly_Friday_/H15_TCMNOM_Y1.txt).

November 21, 2014

TO: State Directors, Rural Development

ATTN: Community Programs Directors

FROM: Tony Hernandez /s/ *Tony Hernandez*
Administrator Rural
Housing Service

SUBJECT: Coordination of Servicing Activity on Community
Facilities Direct and Guaranteed Combination Loans

Community Programs has combined financing on excellent projects throughout the country utilizing the Community Facilities (CF) guaranteed and direct loan programs. Community Programs field staff needs to be prepared to work with our guaranteed lenders efficiently and effectively in servicing combination loans.

Community Programs places the services provided by CF projects to the community of paramount importance. While we continue to hold to this philosophy, we must be sensitive to the fact, that on combination loans, our lenders may not have the ability to enter into long term workout arrangements in problem loan situations. Our guaranteed lender is subject to strict lending regulations and operational requirements that may not allow that flexibility.

The policy established by the National Office on direct loans, pursuant to RD Instruction 1951- E, section 1951.225, is to allow the borrower 120 days to voluntarily liquidate the loan by sale or transfer, prior to the Agency foreclosing on the property. The lender, however, may not be able to offer 120 days prior to foreclosing due to their operational requirements. Therefore, in problem loan situations on combination loans, the lender and the Agency need to concur with the manner in which the direct and guaranteed loan is serviced and in any workout arrangements.

EXPIRATION DATE:
December 31, 2015

FILING INSTRUCTION:
Community/Business Programs

It is crucial on combination loans that the borrower's problem loan situation is addressed early by the Agency, the borrower and the lender. To ensure compliance with state foreclosure requirements, current real and personal property appraisals should be obtained promptly, and along with it, timeframes for notifying the borrower. A well thought out approach between the borrower, CF staff and the lender will result in effective workout agreements and liquidation plans.

Should you have any questions please contact Shirley Stevenson at (202) 205-9685.

November 26, 2014

TO: Rural Development State Directors

ATTN: Housing Program Directors and Area Directors

FROM: Tony Hernandez /s/ **Tony Hernandez**
Administrator
Housing and Community Facilities Programs

SUBJECT: Real Estate Owned (REO) Sale or
Lease To Local Non-Profit
Organizations

Non-Program (NP) REO properties may be sold with special preferences to local groups providing transitional housing for the homeless. The agency may also lease these properties for a nominal amount to certain groups. This Un-numbered Letter provides guidance in working with interested public bodies and non-profits to obtain these properties under special terms. It also outlines agency requirements for managing properties leased for transitional housing.

Special purposes and flexible financing terms for local non-profit groups and public bodies may be considered by the agency in the sale of REO properties. This includes: Sale under special provisions; conversion to multi-family housing; or, lease for transitional housing.

For Non-Program properties (only), a 10-percent discount will be offered to nonprofit organizations or public bodies to purchase REO property. For any REO property, no earnest money deposit is required. Further, the agency will offer financing on Non-Program terms, with no down payment required and a term up to 30 years. Special terms can be considered, depending upon the planned use of the property and the repayment ability of the non-profit group. Generally, these properties will be sold "as is," though in some cases, repairs to make the property decent, safe and sanitary can be completed by the agency and reflected in the sales price. See Handbook-1-3550, Chapter 16, Paragraph 16.1 for more guidance.

EXPIRATION DATE:
November 30, 2015

FILING INSTRUCTIONS:
Housing Programs

As per 7 CFR Part 3550, Section 3550.251 (d) (2), local nonprofit or public groups conducting transitional housing programs may request an REO property be withdrawn from the market for 30 days in order to allow the group to execute a purchase agreement for an NP property. Such a request can be made by the non-profit group or public body at any time.

As per 7 CFR 3550.251 (d) (3) NP properties may also be leased to these groups for up to 10 years at one dollar per year. Handbook-1-3550 Chapter 15, Section 2 provides further guidance. If a property is leased, it remains on the books and must still be properly managed by the local Rural Development office, as noted below. Oversight is needed to assure the lease is within the intended scope of the 'Transitional Housing for the Homeless' lease program. Currently, there are about nine leased properties nationwide.

Lessee Must Meet Eligibility Requirements and Show Community Need

The requesting organization should be encouraged to purchase the REO before a lease is considered. Rural Development staff will certify the lessee has been informed of the availability of the REO for sale, including: withdrawal from the market; incentives such as no deposit and no down payment; the ten-percent price discount; possible assistance with repairs; and, availability of non-program financing at flexible terms.

The lessee group must provide the documentation of the need for this type of housing and the intended use. It must provide evidence of legal existence, including articles of incorporation and bylaws which permit the leasing. A current financial statement must verify the group's ability to meet obligations, including cost of maintenance, taxes, insurance and utilities. A sample lease, or occupancy statement for occupants, must meet leasing program requirements and include a nondiscrimination policy. The organization is permitted only to charge tenant rent not in excess of its operating costs, such as taxes, insurance, and reasonable maintenance costs. Rent is typically a nominal amount.

The proposed use of the leased property must meet the leasing requirement of providing transitional housing for homeless. It must also support Rural Development's mission of providing affordable housing to low income rural families. A description of the program the non-profit is conducting will include the groups to be served (such as displaced parents, fire victims, immigrant workers, etc.) and how it fits with other programs the group conducts, as well as how well it helps lead families to homeownership.

Upon written notification by a public body or non-profit group of its intent to lease an NP property, Rural Development will withdraw the REO from sale for a period not to exceed 30 days. This will provide an opportunity to consider the group's request and to execute a formal lease.

Rural Development must determine repairs and/or renovations necessary for the property to meet “decent, safe, and sanitary” (DSS) standards, excepting thermal performance standards. Repairs are further limited to those to remove significant health and safety hazards and provide adequate, safe, and operable heating, plumbing, electrical, water, and waste disposal systems.

If the cost of repairs/renovations is reasonable, Rural Development will contract to perform said work upon execution of a formal lease. However, if costs to Rural Development are excessive, a lease will not be considered. The group might then consider another NP property, if available, or the property could be considered for purchase. Generally, repair costs to Rural Development should not exceed \$500. The lessee group at its own expense can complete repairs beyond the agency limit at inception or at any time during the lease. However, any repairs the non-profit group completes cannot be reimbursed by Rural Development.

A fact sheet about the leasing program is Attachment 15-C to HB-1-3550. The property is leased using Attachment 15-D to HB-1-3550. Any changes to this lease or use of an alternate form are not permitted without permission from the National Office or the Office of General Counsel (OGC).

The proposed lease, documentation that all requirements listed here are met, and the State Director’s recommendation will be submitted to the National Office for review before approval of the lease. The lease is executed by the State Director on concurrence of the National Office.

Annual Review of REO and Lessee

The local Rural Development office is required to oversee the leases of all REO properties to assure the leases continue to meet all requirements. An inspection is required at least annually to assure the leased property is properly maintained and used for intended purposes. In addition, a review of the group’s overall shelter program should be conducted to assure all terms of the lease are met.

The review should include all of the following:

- Determination that the current use of the property fulfills the requirement to provide transitional housing for homeless persons;
- Verification that taxes and assessments are paid in a timely manner. It is preferred the lessee pay directly to the local taxing authority. However, funds to pay these obligations may be provided to Rural Development at least 30 days before the due date;
- Verification of adequate insurance against fire and other hazards in an amount at least equal to the value of the property. Rural Development must be named as co-beneficiary;
- A thorough inspection of the property. Any alteration, addition, or improvement must have the written approval of Rural Development;

- Notification to the lessee of any damage or needed maintenance. If the lessee does not complete the repairs in a reasonable time, Rural Development may complete the repairs and charge the lessee and/or terminate the lease; and,
- A review of the amount of rent, if any, charged to the occupants. The lessee must demonstrate that the amount of rent does not exceed the costs incurred by the lessee to own the property. The lessee is permitted to pass along its actual costs for taxes, insurance, maintenance, utilities (if applicable), an amortized amount for modest capital improvements, and, a reasonable amount for administrative expenses. It is expected the rent will be kept reasonable and well below local market rent level.

Interviews of tenants and a thorough review of the lessee group's program should be conducted. For instance, as the shelter arrangement is temporary, what assistance is provided to move the occupants to permanent housing? Is the occupant attending certified homeownership training or other courses leading to homeownership? Can the lessee consider purchase of the property?

Failure to meet all requirements of the lease program is a basis for termination of the lease.

Near the end of the lease period, the lessee group must arrange to deliver possession of the REO back to Rural Development. The property must be returned vacant and in a habitable condition. Alternately, the non-profit lessee will be offered the chance to purchase the property at its current market value, less the ten-percent discount if the property will continue to be used as transitional housing for the homeless.

In no case may the property be leased for an additional ten years or any other period. The only exception is extension for necessity on a month-to-month basis; this is permitted only with Rural Development's written consent and only if necessary to arrange for delivery of possession – such as finding other housing for occupants.

If you have any questions, please contact Donn Appleman at (202) 690-0510, or via email at donn.appleman@usda.gov.