

PART 3575 - GENERAL

Subpart A - Community Programs Guaranteed Loans

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PART 3575 - GENERAL

Subpart A - Community Programs Guaranteed Loans

§ 3575.1 General.

(a) This subpart contains the regulations for Community Programs (CP) loans guaranteed by the Agency and applies to lenders, holders, borrowers, and other parties involved in making, guaranteeing, holding, servicing, or liquidating such loans.

(b) The purpose of the CP guaranteed loan program is to improve, develop, or finance essential community facilities in rural areas. This purpose is achieved through bolstering the existing private credit structure through the guarantee of quality loans which will provide lasting community benefits.

(c) The CP loan program is administered by the Administrator through the State Director serving each State.

(d) Throughout this instruction, we have referred to Rural Development Forms by their official names. Exhibit D provides a list of the forms by title and their corresponding numbers.

§ 3575.2 Definitions. The following general definitions are applicable to the terms used in this subpart:

Agency. The Rural Housing Service which is within the Rural Development mission area of the United States Department of Agriculture or its successor agencies with authority delegated by the Secretary of Agriculture to administer the Community Facilities programs.

Agency servicing office. The office servicing the lender.

Applicant. The lender who requests the Agency guarantee.

Application. An Agency prescribed form to request an Agency guarantee (available in any Agency office).

Arm's length transaction. The sale, release, or disposition of assets in which the title to the property passes to a ready, willing, and able third party who is not affiliated with, or related to, and has no security, monetary, or stockholder interest in the borrower or transferor at the time of the transaction.

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General



Assignment Guarantee Agreement. The signed agreement among the Agency, the lender, and the older setting forth the terms and conditions of an assignment of a guaranteed portion or a loan or any part thereof (available in any Agency office).

Borrower. The entity that borrows money from the lender/applicant.

Collateral. Property pledged to secure the guaranteed loan.

Community facilities (essential). The term "facility" as used in this subpart refers to both the physical structure financed and the resulting service provided to rural residents. An essential community facility must:

- (1) Be a function customarily provided by a local unit of government;
- (2) Be a public improvement needed for the orderly development of a rural community;
- (3) Not include private affairs or commercial or business undertakings (except for limited authority for industrial parks);
- (4) Be within the area of jurisdiction or operation for public bodies eligible to receive assistance or a similar local rural service area of a not-for-profit corporation; and
- (5) Be located in a rural area.

Conditional Commitment for Guarantee. The Agency's written statement to the lender that the material submitted is approved subject to the completion of all conditions and requirements contained in the commitment (available in any Agency office).

Deputy Chief Financial Office (DCFO). The office which maintains the Agency financial records.

Guaranteed loan. A loan made and serviced by a lender for which the Agency and lender have entered into a Lender's Agreement (Form RD 449-35) and for which the Agency has issued a Loan Note Guarantee (Form RD 449-34).

Guaranteed Loan System (GLS). Automated accounting system for guaranteed loans. Field employees should reference the Guaranteed Loan System User's Guide.

§ 3575.2 (Con.)

Holder. The person or entity (other than the lender) who holds all or a part of the guaranteed portion of the loan with no servicing responsibilities. When the lender assigns part or all of the guaranteed portion of the loan to an assignee, the assignee becomes a holder when the Assignment Guarantee Agreement is signed by all parties.

Immediate family. Individuals who are closely related by blood or by marriage or within the same household such as a spouse, parent, child, brother, sister, aunt, uncle, grandparent, grandchild, niece, or nephew.

In-house expenses. In-house expenses include, but are not limited to, employees' salaries, staff lawyers, travel, and overhead.

Insurance. Fire, windstorm, lightning, hail, explosion, riot, civil commotion, aircraft, vehicles, smoke, builder's risk, liability, property damage, flood or mudslide, worker's compensation, fidelity bond, malpractice, or any similar insurance that is available and needed to protect the security or that is required by law.

Joint financing. Two or more lenders (or any combination of lenders and other financial sources) making separate relatively contemporaneous loans to supply the funds required by one borrower. For example, such joint financing may consist of the Agency's financial assistance with the Economic Development Administration, Department of Housing and Urban Development, or other Federal and State agencies, and private and quasi-public financial institutions.

Lender. The person or organization making and responsible for servicing the loan. The lender is also referred to in this subpart as the applicant who is requesting a guarantee during the preapplication and application stage of processing.

Lender's Agreement. The signed agreement between the Agency and the lender containing the lender's responsibilities when the Loan Note Guarantee is issued (available in any Agency office).

Loan classification system. The process by which loans are examined and categorized by degree of potential loss in the event of default.

Loan Note Guarantee. The signed commitment issued by the Agency containing the terms and conditions of the guarantee of an identified loan (available in any Agency office).

Market value. The amount for which property would sell for its highest and best use at voluntary sale in an arm's length transaction.

Note. An evidence of debt. In those instances where the Agency guarantees a bond issue, "note" shall also be construed to include a bond or other evidence of indebtedness, as appropriate.

Participation. Sale of an interest in a loan in which the lender retains the note, collateral securing the note, and all responsibility for loan servicing and liquidation.

Principals or borrowers. The owners, officers, directors, entities, and supervisors directly involved in the operation and management of the borrower.

Problem loan. A loan which is not complying with its terms and conditions.

Protective advances. Advances made by the lender for the purpose of preserving and protecting the collateral where the debtor has failed to, and will not or cannot, meet obligations to protect or preserve collateral.

Public body. A municipality, county, or other political subdivision of a State, special purpose districts, an Indian tribe on a Federal or State reservation, or another federally recognized Indian tribe.

Report of Loss. A form used by lenders when reporting a loss under an Agency guarantee (available in any Agency office).

Rural and rural area.

(1) For fiscal year 1999, the terms "rural" and "rural area" mean a city, town, or unincorporated area with 20,000 inhabitants or less according to the latest decennial census.

(2) For later fiscal years, the terms "rural" and "rural area" mean a city, town, or unincorporated area that has a population of 50,000 inhabitants or less according to the latest decennial census of the United States, other than an urbanized area immediately adjacent to a city, town, or unincorporated area that has a population in excess of 50,000 inhabitants.

Service area. The area reasonably expected to be served by the facility being financed by the guaranteed loan.

## § 3575.2 (Con.)

State. Any of the 50 States, the Commonwealth of Puerto Rico, the Virgin Islands of the United States, Guam, American Samoa, Commonwealth of the Northern Mariana Islands, Republic of Marshall Islands, Republic of Palau, and the Federated States of Micronesia.

State bond banks and State bond pools. An entity authorized by the State to issue State debt instruments and utilize the funds received to finance essential community facilities.

State Director. The Rural Development State Director or the staff member who has been delegated authority to perform action on behalf of the State Director.

Substantive change. Any change in the purpose of the loan or any change in the financial condition of the borrower or the collateral which would jeopardize the performance of the loan.

Transfer and assumption. The conveyance by a debtor to an assuming party of the assets, collateral, and liabilities of the loan in return for the assuming party's binding promise to pay the outstanding debt.

§ 3575.3 Full faith and credit.

The Loan Note Guarantee constitutes an obligation supported by the full faith and credit of the United States and is not contestable except for fraud or misrepresentation (including negligent misrepresentation) of which the lender or holder has actual knowledge, participates in, or condones. A note which provides for the payment of interest on interest shall not be guaranteed and any Loan Note Guarantee or Assignment Guarantee Agreement attached to, or relating to, a note which provides for payment of interest on interest is void. The Loan Note Guarantee will not be enforceable by the lender to the extent any loss is occasioned by violation of usury laws, negligent servicing, or failure to obtain the required security regardless of the time at which the Agency acquires knowledge of the foregoing. Any losses occasioned will not be enforceable by the lender to the extent that loan funds are used for purposes other than those specifically approved by the Agency in its Conditional Commitment for Guarantee. Negligent servicing is defined as the failure to perform those services which a reasonably prudent lender would perform in servicing its own portfolio of loans that are not guaranteed. The term includes not only the concept of a failure to act, but also not acting in a timely manner, acting in a manner contrary to the manner in which a reasonably prudent lender would act up to the time of loan maturity, or until a final loss is paid. The Loan Note Guarantee or Assignment Guarantee Agreement in

the hands of a holder shall not cover interest accruing 90 days after the holder has demanded repurchase by the lender, nor shall the Loan Note Guarantee or Assignment Guarantee Agreement in the hands of a holder cover interest accruing 90 days after the lender or Agency has requested the holder to surrender the evidence of debt for repurchase.

§ 3575.4 Conditions of guarantee.

A loan guarantee under this part will be evidenced by a Loan Note Guarantee issued by the Agency. Each lender will also execute a Lender's Agreement.

(a) The entire loan will be secured by the same security with equal lien priority for the guaranteed and non-guaranteed portions of the loan. The non-guaranteed portion of the loan will not be paid first nor given any preference or priority over the guaranteed portion.

(b) The lender will be responsible for servicing the entire loan and will remain mortgagee or secured party of record notwithstanding the fact that another party may hold a portion of the loan.

(c) When a guaranteed portion of a loan is sold to a holder, the holder shall have all rights of the lender under the Loan Note Guarantee to the extent of the portion purchased. The lender will remain bound by all the obligations under the Loan Note Guarantee, Lender's Agreement, and Agency program regulations. If the Agency makes a payment to a holder, then the lender must reimburse the Agency.

(d) A lender will receive all payments of principal and interest on the account of the entire loan and will promptly remit to each holder a pro rata share, less any lender servicing fee.

(e) The lender may retain all of the unguaranteed portion of the loan or may sell part of the unguaranteed portion of the loan through participation. However, the lender is required to retain 5 percent of the loan amount from the unguaranteed portion in their portfolio.

§§ 3575.5 - 3575.6 [Reserved]

§ 3575.7 Case and identification (ID) numbers.

The case number will be the borrower's or transferee's Internal Revenue Service (IRS) tax identification number preceded by State and county code numbers. The State Director will provide the lender with these numbers. The lender's and holder's IRS tax identification number will be used as the ID number in correspondence and forms relating to the guarantee.

§ 3575.8 Access to lender's records.

Upon request by the Agency, the lender will permit representatives of the Agency (or other agencies of the U.S. Department of Agriculture authorized by that Department or the U.S. Government) to inspect and make copies of any of the records of the lender pertaining to the guaranteed loans. Such inspection and copying may be made during regular office hours of the lender or at any other time the lender and the Agency agree upon.

§ 3575.9 Environmental review requirements.

Actions taken under this subpart must comply with the environmental review requirements in accordance with 7 CFR part 1970. The lender must assist the Agency to ensure that the lender's applicant complies with any mitigation measures required by the Agency's environmental review for the purpose of avoiding or reducing adverse environmental impacts of construction or operation of the facility financed with the guaranteed loan. This assistance includes ensuring that the lender's applicant is to take no actions (for example, initiation of construction) or incur any obligations with respect to their proposed undertaking that would either limit the range of alternatives to be considered during the Agency's environmental review process or which would have an adverse effect on the environment. If construction is started prior to completion of the environmental review and the Agency is deprived of its opportunity to fulfill its obligation to comply with applicable environmental requirements, the application for financial assistance may be denied. Satisfactory completion of the environmental review process must occur prior to Agency approval of the applicant's request or any commitment of Agency resources. (Revised 04-01-16, SPECIAL PN.)

RD Instruction 3575-A  
§ 3575.9 (Con.)

§ 3570.10 Civil Rights Impact Requirements.

The Agency will conduct a civil rights impact analysis as required by RD Instruction 2006-P and Executive Orders 12898 and 12948. The lender must assist the Agency to ensure that the lender's applicant complies with any mitigation measures required by the Agency's civil rights impact analysis for those purposes of avoiding or reducing any disproportional adverse impact of construction or operations of the facility on low income or minority populations.

§ 3575.11 [Reserved]

§ 3575.12 Inspections.

The lender will notify the Agency of any scheduled field inspections during construction and after issuance of the Loan Note Guarantee. The Agency may attend such field inspections. Any inspections or review conducted by the Agency, including those with the lender, are for the benefit of the Agency only and not for the benefit of other parties of interest. Agency inspections do not relieve any parties of interest of their responsibilities to conduct necessary inspections.

§ 3575.13 Appeals.

Only the borrower, lender, or holder can appeal an Agency decision. In cases where the Agency has denied or reduced the amount of final loss payment to the lender, the adverse decision may be appealed only by the lender. A decision by a lender adverse to the interest of the borrower is not a decision by the Agency, whether or not concurred in by the Agency. Appeals will be handled in accordance with the regulations of the National Appeals Division, U.S. Department of Agriculture, published at 7 CFR part 11.

§ 3575.14 [Reserved]

§ 3575.15 State supplements.

State Directors may supplement this regulation, subject to National Office review, to the extent necessary to comply with State law. They may also specify the positions responsible for Agency actions within the State.

§ 3575.16 State Director's authorization and guidance.

State Directors are authorized to delegate their authorities to appropriate Agency representatives who have the experience and training to perform the delegated authority. All proposed actions outside the authority of either the State Director or lender in this subpart will be referred to the National Office for approval.

§ 3575.17 Exception authority.

The Administrator may, in individual cases, make an exception to any requirement or provision of this subpart or address any omission of this subpart provided the Administrator determines that application of the requirement or provision, or failure to take action in the case of an omission, would adversely affect the Government's financial interest. Requests for exceptions must be in writing by the State Director. Requests must be supported with documentation to explain the adverse effect on the Government's financial interest, proposed alternative courses of action, and show how the adverse effect will be eliminated or minimized if the exception is granted.

§§ 3575.18 - 3575.19 [Reserved]

§ 3575.20 Eligibility.

(a) Availability of credit from other sources. The Agency must determine that the borrower is unable to obtain the required credit without the CP loan guarantee from private, commercial, or cooperative sources at reasonable rates and terms for loans for similar purposes and period of time. This determination shall become a part of the Agency casefile. The Agency must also determine if any outstanding judgment obtained by the United States in Federal Court (other than the U.S. Tax Court) has been entered against the borrower, or if the borrower has an outstanding delinquent debt with any Federal agency. Such judgment or delinquency shall cause the borrower to be ineligible to receive a loan guarantee until the judgment is paid in full or otherwise satisfied or the delinquency is cured.



(b) Legal authority and responsibility.

(1) Each borrower must have, or will obtain, the legal authority necessary to construct, operate, and maintain the proposed facility and services. They must also have legal authority for obtaining security and repaying the proposed loan.

(2) The borrower shall be responsible for operating, maintaining, and managing the facility and services, and providing for the continued availability and use of the facility and services at reasonable rates and terms.

(i) These responsibilities must be exercised by the borrower even though the facility may be operated, maintained, or managed by a third party under contract, management agreement, or written lease.

(ii) Leases may only be used when this is the only feasible way to provide the service, is the customary practice to provide such service in the State, and must provide for the borrower's management control of the facility.

(iii) Contracts, management agreements, or leases must not contain options or other provisions for transfer of ownership.

(3) The lender is responsible for reviewing any contracts, management agreements, or leases to determine that they will not adversely impact the borrower's repayment ability or the security value of the guaranteed loan.

(c) Borrower.

(1) A public body such as a municipality, county, district, authority, or other political subdivision of a State located in a rural area.

(2) An organization operated on a not-for-profit basis such as an association, cooperative, or private corporation. For-profit corporations operated as not-for-profit corporations are eligible borrowers as long as they operate as a not-for-profit corporation for the duration of their guaranteed loans. Single member corporations or corporations owned or substantially controlled by other corporations or associations are not eligible organizations. Before a loan is made to a borrower other than a public body, the articles of incorporation or the loan agreement will include a condition similar to the following:

## § 3575.20(c)(2) (Con.)

"If the corporation dissolves or ceases to perform the community facility objectives and functions, the board of directors shall distribute all business property and assets to one or more nonprofit corporations or public bodies. This distribution must be approved by 75 percent of the users or members and must serve the public welfare of the community. The assets may not be distributed to any members, directors, stockholders, or others having financial or managerial interest in the corporation. Nothing herein shall prohibit the corporation from paying its debts."

(3) A private nonprofit essential community facility (other than utilities) must have significant ties with the local rural community. Such ties are necessary to ensure to the greatest extent possible that a facility under private control will carry out a public purpose and continue to primarily serve rural areas. Ties may be evidenced by items such as:

(i) Association with, or controlled by, a local public body or bodies or broadly-based ownership and controlled by members of the community.

(ii) Substantial public funding through taxes, revenue bonds, or other local government sources, and/or substantial voluntary community funding such as would be obtained through a community-wide funding campaign.

(4) Indian tribes on Federal and State reservations and other federally recognized Indian tribes.

(d) Facility location. Facilities must be located in rural areas, except:

(1) For utility services such as natural gas or hydroelectric serving both rural and non-rural areas. In such cases, Agency funds may be used to finance only that portion serving rural areas (residents, businesses, and local government), regardless of facility location.

(2) Telecommunications projects. The part of the facility located in a non-rural area must be necessary to provide the essential services to rural areas.

(e) Facilities for public use. All facilities financed under the provisions of this subpart shall be for public purposes.

(1) Facilities will be installed to serve any user within the service area who desires service and can be feasibly and legally served.

(2) In no case will boundaries for the proposed service area be chosen in such a way that any user or area will be excluded because of race, color, religion, sex, marital status, age, disability, national origin, or political status. This does not preclude:

(i) Financing or constructing projects in phases when it is not practical to finance or construct the entire project at one time, and

(ii) Financing or constructing facilities where it is not economically feasible to serve the entire area, provided economic feasibility is determined on the basis of the entire system or facility and not by considering the cost of separate extensions to, or parts thereof. Additionally, the borrower must publicly announce a plan for extending service to areas not initially receiving service. Also, the borrower must provide written notice to potential users located in the areas not to be initially served.

(3) The lender will determine that, when feasibly and legally possible, inequities within the proposed project's service area for the same type service proposed (e.g., gas distribution systems) will be remedied by the owner on, or before, completion of the project. Inequities are defined as unjustified variations in availability, adequacy, or quality of service. User rate schedules for portions of existing systems or facilities that were developed under different financing, rates, terms, or conditions do not necessarily constitute inequities.

§§ 3575.21 - 3575.23 [Reserved]

§ 3575.24 Eligible loan purposes.

(a) Funds may be used to construct, enlarge, extend, or otherwise improve other essential community facilities providing essential service primarily to rural residents and rural businesses.

## § 3575.24(a) (Con.)

- (1) Essential community facilities include, but are not limited to:
  - (i) Fire, rescue, and public safety,
  - (ii) Health services,
  - (iii) Community, social, or cultural services,
  - (iv) Transportation facilities such as streets, roads, and bridges,
  - (v) Telecommunication equipment,
  - (vi) Hydroelectric generating facilities and related connecting systems and appurtenances only when not eligible for financing under the authorities of the Rural Utilities Service (RUS). Funds may not be used to finance other types of electric generating or transmitting facilities,
  - (vii) Supplemental and supporting structures for other rural electrification or telephone systems (including facilities such as headquarters and office buildings, storage facilities, and maintenance shops) only when not eligible for financing under the authorities of the Rural Utilities Service,
  - (viii) Natural gas distribution systems,
  - (ix) Industrial park sites (but only to the extent of land acquisition and necessary site preparation) including access ways and utility extensions to and throughout the site. Funds may not be used in connection with industrial parks to finance on-site utility systems or business and industrial buildings, and
  - (x) Recreational facilities.
- (2) Otherwise improve includes, but is not limited to, the following:
  - (i) The purchase of major equipment (such as telecommunication equipment and X-ray machines) which will in themselves provide an essential service to rural residents;

(ii) The purchase of existing facilities, when necessary, either to improve or to prevent a loss of service; and

(iii) Payment of tap fees and other utility connection charges as provided in utility purchase contracts.

(b) Funds also may be used:

(1) To construct or relocate public buildings, roads, bridges, fences, or utilities and to make other public improvements necessary to the successful operation or protection of facilities authorized by paragraph (a) of this section.

(2) To relocate private buildings, roads, bridges, fences, or utilities, and other private improvements necessary to the successful operation or protection of facilities authorized in paragraph (a) of this section.

(3) To pay the following expenses (but only when such expenses are a necessary part of a loan to finance facilities authorized in paragraph (a) of this section):

(i) Reasonable fees and costs such as origination fee, loan guarantee fee, legal, engineering, architectural, fiscal advisory, recording, environmental impact analyses, archaeological surveys, possible salvage or other mitigation measures, planning and establishing or acquiring rights.

(ii) Interest on loans until the facility is self-supporting, but not for more than 2 years unless a longer period is approved by the National Office; interest on loans secured by general obligation bonds until tax revenues are available for payment, but not for more than 2 years unless a longer period is approved by the National Office; and interest on interim financing.

(iii) Costs of acquiring interest in land; rights such as water rights, leases, permits, rights-of-way, and other evidence of land or water control necessary for development of the facility.

(iv) Purchasing or renting equipment necessary to install, maintain, extend, protect, operate, or utilize facilities.

(v) Initial operating expenses for a period ordinarily not exceeding 1 year when the borrower is unable to pay such expenses.

§ 3575.24(b)(3) (Con.)

(vi) Refinancing debts incurred by, or on behalf of, a community when all of the following conditions exist:

(A) The debts being refinanced are less than 50 percent of the total loan,

(B) The debts were incurred for the facility or service being financed or any part thereof (such as interim financing, construction expenses, etc.), and

(C) Arrangements cannot be made with the creditors to extend or modify the terms of the debts so that a sound basis will exist for making a loan.

(4) To pay obligations for construction incurred prior to filing a preapplication and application with the Agency. Construction work must not be started (and obligations for such work or materials must not be incurred) before the Conditional Commitment for Guarantee is issued. If there are compelling reasons for proceeding with construction before the Conditional Commitment for Guarantee is issued, lenders may request Agency approval to pay such obligations and not jeopardize a guarantee from the Agency. Such request must comply with the following:

(i) Provide conclusive evidence that the contract was entered into without intent to circumvent Agency regulations. However, the Agency is not required or obligated to pay a loss unless a written guarantee is issued,

(ii) Modify the outstanding contract to conform with the provisions of this subpart. Where this is not possible, modifications will be made to the extent practicable and, as a minimum, the contract must comply with all State and local laws and regulations as well as statutory requirements and executive orders related to the Agency financing. When construction is complete and it is impracticable to modify the contract, the borrower and lender must provide the certification required by paragraph (b)(4)(iii) of this section,

(iii) Provide a certification by an engineer or architect that any construction performed complies fully with the plans and specifications, and

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§ 3575.24(b) (4) (Con.)

(iv) The borrower and the contractor must have complied with all statutory and executive order requirements related to Agency financing for construction already performed even though the requirements may not have been included in the contract documents.

(v) An Agency employee must be able to meet the requirements of § 3575.9(b) of this subpart.

§ 3575.25 Ineligible loan purposes. Loan funds may not be used to finance:

(a) Properties to be used for commercial rental when the borrower has no control over tenants and services offered except for industrial-site infrastructure development,

(b) Facilities primarily for the purpose of housing Federal or State agencies,

(c) Community antenna television services or facilities,

(d) Telephone systems,

(e) Facilities which are not modest in size, design, and cost,

(f) Finder's and packager's fees,

(g) Projects located within the Coastal Barriers Resource System that do not qualify for an exception as defined in section 6 of the Coastal Barriers Resource Act, 16 U.S.C. 3501 et seq. (available in any Agency office),

(h) New combined sanitary and storm water sewer facilities, or

(i) Projects that are located in a special flood or mudslide hazard area (as designated by the Federal Emergency Management Agency) in a community that is not participating in the National Flood Insurance Program.

§ 3575.26 [Reserved]

§ 3575.27 Eligible lenders.

(a) Eligible lenders. Eligible lenders (as defined in this section) may participate in the loan guarantee program. These 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 must have the capability to adequately service loans for which a guarantee is requested. Eligible lenders are:

- (1) Any Federal or State chartered bank or savings and loan association;
- (2) Any mortgage company that is a part of a bank holding company;
- (3) Bank for Cooperatives, National Rural Utilities Cooperative Finance Corporation, Farm Credit Bank of the Federal Land Bank Association, or other Farm Credit System institution with direct lending authority authorized to make loans of the type guaranteed by this subpart;
- (4) An insurance company regulated by a State or National insurance regulatory agency
- (5) State bond banks or State bond pools; and
- (6) Other lenders that possess the legal powers necessary and incidental to making and servicing guaranteed loans involving community development-type projects. These lenders must also be subject to credit examination and supervision by either an appropriate agency of the United States or a State that supervises and regulates credit institutions and provide documentation acceptable to the Agency that they have the ability to service the loan. Lenders under this category must be approved by the National Office prior to the issuance of the loan guarantee.

(b) Conflict of Interest. When the lender's officers, stockholders, directors, or partners (including their immediate families) or the borrower, its officers, stockholders, directors, or partners (including their immediate families) own, or have management responsibilities in each other, the lender must disclose such business or ownership relationships. The Agency will determine if such relationships are likely to result in a conflict of interest. This does not preclude lender officials from being on the borrower's board of directors.



§ 3575.28 Transfer of lenders or borrowers (prior to issuance of Loan Note Guarantee).

(a) Prior to issuance of the loan guarantee, the Agency may approve the transfer of an outstanding Conditional Commitment for Guarantee from the present lender to a new eligible lender, provided:

- (1) The former lender states in writing why it does not wish to continue to be the lender for this project;
- (2) No substantive changes in ownership or control of the borrower has occurred;
- (3) No substantive changes in the borrower's written plan, scope of work, or changes in the purpose or intent of the project has occurred; and
- (4) No substantive changes in the loan agreement or Conditional Commitment for Guarantee are required.

(b) The substitute lender must execute a new application for loan and guarantee (available in any Agency office).

(c) If approved, the Agency will issue a letter of amendment to the original Conditional Commitment for Guarantee reflecting the new lender who will acknowledge acceptance of the offer in writing.

(d) Once the Conditional Commitment for Guarantee is issued, the Agency will not approve any substitution of borrowers, including changes in the form of the legal entity. Exceptions to a change in the legal entity may be requested when the original borrower is replaced with substantially the same individuals or officers with the same interest as originally approved.

(e) Agency personnel will notify DCFO through a Notice of Substitution of Lender.

§ 3575.29 Fees and charges by lender.

(a) Routine charges and fees. The lender may establish the charges and fees for the loan, provided they do not exceed those charged other borrowers for similar types of transactions. "Similar types of transactions" means those transactions involving the same type of loan for which a non-guaranteed loan borrower would be assessed charges and fees.

## § 3575.29 (Con.)

(b) Late payment charges. Late payment charges will not be covered by the Loan Note Guarantee. Such charges may not be added to the principal and interest due under any guaranteed note. Late payment charges may be made only if:

- (1) They are routinely made by the lender in all types of loan transactions;
- (2) Payment has not been received within the customary timeframe allowed by the lender; or
- (3) The lender agrees with the borrower, in writing, that the rate or method of calculating the late payment charges will not be changed to increase charges while the Loan Note Guarantee is in effect.

(c) Guarantee fees. The guaranteed loan fee will be the applicable guarantee fee rate multiplied by the principal loan amount multiplied by the percent of guarantee. The one-time guarantee fee is paid when the Loan Note Guarantee is issued. The lender will prepare and deliver the Guaranteed Loan Closing Report and deliver the fee to the Agency servicing office.

- (1) The fee will be paid to the Agency by the lender and is nonreturnable. The lender may pass on the fee to the borrower.
- (2) The guarantee fee rates are available in any Agency office.

§ 3575.30 Loan guarantee limitations.

The percentage of guarantee, up to the maximum allowed by this section, is a matter for negotiation between the lender and the Agency.

- (a) The maximum guarantee is 90 percent of eligible loss.
- (b) The lender will retain a minimum of 5 percent of the total loan amount. The retained amount must be from the unguaranteed portion of the loan and cannot be participated to another lender.

## §§ 3575.31 - 3575.32 [Reserved]

§ 3575.33 Interest rates.

(a) General. Rates will be negotiated between the lender and the borrower. They may be either fixed or variable rates. Interest rates will be those rates customarily charged borrowers in similar circumstances in the ordinary course of business and are subject to Agency review and approval.

(b) Variable rate publication. A variable interest rate must be tied to a base rate published periodically in a recognized national or regional financial publication specifically agreed to by the lender and borrower. Such an agreement must be documented in the borrower or lender loan agreement.

(1) Interest rate caps and incremental adjustment limitations will also be negotiated between the lender and the borrower. Notice of any interest rate change proposed by the lender should allow a sufficient time period for the borrower to obtain any required State or other regulatory approval and to implement any user rate adjustments necessary as a result of the interest rate change. The intervals between interest rate adjustments will be specified in the loan agreement (but not more often than quarterly).

(2) The lender must incorporate within the variable rate note, the provision for adjustment of payments coincident with an interest rate adjustment. This will ensure the outstanding principal balance is properly amortized within the prescribed loan maturity and eliminate the possibility of a balloon payment at the end of the loan.

(c) Changes. Any change in the interest rate between the date of issuance of the Conditional Commitment for Guarantee and before the issuance of the Loan Note Guarantee must be approved by the Agency. Approval of such change will be shown as an amendment to the Conditional Commitment for Guarantee.

(d) Different rates on guaranteed and unguaranteed portion of the loan. It is permissible to have one interest rate on the guaranteed portion of the loan and another interest rate on the unguaranteed portion of the loan, provided the lender and borrower agree, and:

(1) The rate on the unguaranteed portion does not exceed that currently being charged on loans for similar purposes to borrowers under similar circumstances; and,

## § 3575.33(d) (Con.)

(2) The rate on the guaranteed portion of the loan will not exceed the rate on the unguaranteed portion. This requirement does not apply when the unguaranteed rate is variable and the guaranteed portion is fixed.

(e) Multi-rates. When multi-rates are used, the lender will provide the Agency with the overall effective interest rate for the entire loan. Multi-rate loans may be either fixed, variable, or a combination of fixed and variable. When a combination of fixed and variable interest rates are used, the interest rate for the unguaranteed portion will not be lower than the guaranteed portion of the loan.

§ 3575.34 Terms of loan repayment.

(a) General. Principal and interest on the loan will be due and payable as provided in the note except, any interest accrued as the result of the borrower's default on the guaranteed loan over and above that which would have accrued at the note rate on the guaranteed loan will not be guaranteed by the Agency. The lender will structure repayments as established in the loan agreement between the lender and borrower. Ordinarily, such installments will be scheduled for payment as agreed upon by the lender and borrower on terms that reasonably ensure repayment of the loan. However, the first installment to include a repayment of principal may be scheduled for payment after the project is operable and has begun to generate income. Such installment will be due and payable within 2 years from the date of the note and at least annually thereafter. Interest will be due at least annually from the date of the note. Monthly payments will be required (except for borrowers with income limited to less frequent intervals).

(b) Term length. The maximum time allowable for final maturity for a guaranteed CP loan will be limited to the useful life of the facility, not to exceed 40 years.

(c) Balloon payments. The principal balance should be properly amortized within the prescribed loan maturity. Balloon payments at the end of the loan are prohibited.

§§ 3575.35 - 3575.36 [Reserved]

§ 3575.37 Insurance and fidelity bonds.

The lender must provide evidence that the borrower has adequate insurance fidelity bond coverage by loan closing or start of construction, whichever occurs first. Adequate coverage must be maintained for the life of the loan and is subject to Agency review and approval.

- (a) General. Lenders are responsible for determining that adequate insurance and fidelity bond coverage are being maintained by the borrower. This may consist of a listing of policies and coverage amounts in yearend reports or other documentation. The borrower is responsible for updating or renewing policies for coverage which expire between submissions.
- (b) Fidelity bonds. Lenders may require borrowers to provide fidelity bond coverage for all persons who have access to funds.
- (c) Insurance. The following types of insurance coverage may be required:
  - (1) Property insurance, such as fire and extended coverage, will normally be maintained on all structures. Ordinarily, the lender should be listed as mortgagee on the policy when it has a lien on the property. Normally, major items of equipment or machinery located in the insured structures must also be covered. Exceptions are:
    - (i) Reservoirs, standpipes, elevated tanks, and other structures built entirely of noncombustible materials if such structures are not normally insured.
    - (ii) Subsurface lift stations except for the value of electrical and pumping equipment.
  - (2) Liability and property damage insurance, including vehicular coverage.
  - (3) The need and requirements for malpractice insurance will be carefully and thoroughly considered in connection with each health care facility financed.
  - (4) Facilities located in special flood- and mudslide-prone areas must comply with the eligibility and insurance requirements of subpart B of part 1806 of this chapter (RD Instruction 426.2).
  - (5) The borrower will carry worker's compensation insurance for employees in accordance with State laws.

§§ 3575.38 - 3575.39 [Reserved]

§ 3575.40 Equal opportunity and Fair Housing Act requirements.

(a) Equal Credit Opportunity Act. The lender will comply with the requirements of title V of the Equal Credit Opportunity Act (15 U.S.C. 1691 et seq.). (See the Federal Reserve Board Regulation, 12 CFR part 202.)

(b) Fair Housing Act. Certain housing-related projects such as nursing homes, group homes, or assisted-living facilities must comply with the requirements of the Fair Housing Act (42 U.S.C. 3601 et seq.). This includes completion of an Affirmative Fair Housing Marketing Plan and compliance with the Housing and Urban Development accessibility guidelines except for areas open to the public which are covered by the Americans with Disabilities Act (42 U.S.C. 12181 et seq.). The lender will determine that the borrower has a valid plan in effect at all times.

§ 3575.41 [Reserved]

§ 3575.42 Design and construction requirements.

The lender will provide the Agency with a written certification at the end of construction that all funds were utilized for authorized purposes. The borrower and the lender will authorize design and plans based upon the preliminary architectural and engineering reports or plans approved by the lender and concurred in by the Agency. The borrower will take into consideration any lender or Agency comments when the facility is being designed. The Agency's review will be limited to ensuring that the project is modest in design and construction.

(a) Architectural and engineering practices. All project facilities must be designed utilizing accepted architectural and engineering practices and must conform to applicable Federal, State, and local codes and requirements. The lender must ensure that the planned project will be completed within the available funds and, once completed, will be suitable for the borrower's needs.

(b) Construction monitoring. The lender will monitor the progress of construction and undertake the reviews and inspections necessary to ensure that construction proceeds in accordance with the approved plans, specifications, and contract documents and that funds are used for eligible project costs. The lender should expeditiously report any problems in project development to the Agency.

(c) Equal employment opportunities. For all construction contracts in excess of \$10,000, the contractor must comply with Executive Order 11246 entitled "Equal Employment Opportunity" as amended and as supplemented by applicable Department of Labor regulations (41 CFR part 60-1). The borrower and lender are responsible for ensuring that the contractor complies with these requirements. (RD Forms 400-1 and 400-6 may be used to meet this requirement.)

(d) Americans with Disabilities Act. Community Facilities loans which involve the construction of, or addition to, facilities that accommodate the public and commercial facilities as defined by the Americans with Disabilities Act (42 U.S.C. 12181 - et seq.) must comply with that Act. The lender and borrower are responsible for compliance.

(e) Administrative. When the Agency reviews the preliminary architectural and engineering reports or plans, they must also consider all applicable Federal laws such as the seismic requirements of Executive Order 12699, the debarment requirements of 7 CFR part 3017, and the Copeland Anti-Kickback Act (18 U.S.C. 874).

§ 3575.43 Other Federal, State, and local requirements.

In addition to the specific requirements of this subpart and beginning on the date of the issuance of the Loan Note Guarantee, proposals for facilities financed in whole or in part with a loan guarantee by the Agency will be coordinated with all appropriate Federal, State, and local agencies. Borrowers and lenders will be required to comply with any Federal, State, or local laws or regulatory commission rules which are in existence and which affect the project including, but not limited to:

- (a) Organization and authority to design, construct, develop, operate, and maintain the proposed facilities;
- (b) Borrowing money, giving security, and raising revenues for the repayment;
- (c) Land use zoning;
- (d) Health, safety, and sanitation standards; and
- (e) Protection of the environment and consumer affairs.

§§ 3575.44 - 3575.46 [Reserved]

§ 3575.47 Economic feasibility requirements.

All projects financed under the provisions of this section must be based on taxes, assessments, revenues, fees, or other sources of revenues in an amount sufficient to provide for facility operation and maintenance, a reasonable reserve, and debt payment. Other sources of revenue or guarantors are particularly important in considering the feasibility of recreation-type loans. The lender is responsible for determining the credit quality and economic feasibility of the proposed loan and must address all elements of the credit quality in a written financial feasibility analysis which includes adequacy of equity, cash flow, security, history, and management capabilities. Financial feasibility reports must take into consideration any interest rate adjustment which may be instituted under the terms of the note. The lender's financial credit analysis may also serve as the feasibility analysis when sufficient evidence is included to determine economic feasibility as well as financial viability.

(a) Financial feasibility. The borrower, lender, or other qualified entity must prepare the financial feasibility analysis (suggested financial feasibility guidelines are available in any Agency office) in the following instances (exhibit A and B):

- (1) Facilities primarily used for fire and rescue services;
- (2) Facilities that are not dependent on facility revenues for debt payment;
- (3) Loans of less than \$500,000; or
- (4) Projects in which the borrower has operated similar facilities on a financially successful basis.

(b) Utility projects. The borrower's consulting engineer may complete the financial feasibility analysis for utility systems.

(c) Other community facilities. Financial feasibility reports for all other facilities must be prepared by a qualified entity not having a direct interest in the management of the facility. The lender may prepare the feasibility study if qualified staff is available.



(d) Exceptions. The Agency loan approval official may exempt the lender from the requirement for an independent financial feasibility report (when requested by the borrower and the lender) provided the approval official determines that the financial feasibility analysis prepared by the borrower fairly represents the financial feasibility of the facility and the financial feasibility analysis contains an accurate projection of the usage, revenues, and expenses of the facility.

(e) Insufficient information. When the lender or Agency has insufficient information to determine the borrower's repayment ability, an independent feasibility analysis is required.

§ 3575.48 Security.

(a) Lender responsibility. The lender is responsible for obtaining and maintaining proper and adequate security to protect the interest of the lender, the holder, and the Government.

(b) Type of security. Security must be of such a nature that repayment of the loan is reasonably ensured when considered with the integrity and ability of project management, soundness of the project, and the borrower's prospective earnings. The security may include, but is not limited to, the following: general obligation bonds, revenue bonds, pledge of taxes or assessments, assignment of facility revenue, land, easements, rights-of-way, water rights, buildings, machinery, equipment, accounts receivable, contracts, cash, or other accounts or assignments of leases or leasehold interest.

(c) Separate security. All security must secure the entire loan. The lender will not take separate security to secure only the unguaranteed portion of the loan. The lender will not require compensating balances or certificates of deposit as a means of eliminating the lender's exposure on the unguaranteed portion of the loan.

§ 3575.49 Appraisal reports.

(a) Essential community facilities. For essential community facilities, appraisals may be required at the discretion of the lender or the Agency loan approval official. Such appraisals may be prepared by the lender or an independent appraiser as determined necessary by the lender with Agency concurrence.

(b) Utility projects. For utility projects, the borrower is responsible for the acquisition of all property rights necessary for the project and will determine that prices paid are reasonable and fair. An independent appraiser may be utilized.

§§ 3575.50 - 3575.51 [Reserved]

§ 3575.52 Processing.

(a) Preapplications.

(1) The preapplication package must be submitted either alone or the necessary information may be submitted simultaneously with the application. The preapplication package will contain:

(i) An Application for Federal Assistance on a form provided by the Agency (available in any Agency office);

(ii) State intergovernmental or other type review comments and recommendations for the borrower's project (clearinghouse comments, if applicable);

(iii) Supporting documentation necessary to make an eligibility determination such as financial statements, audits, copies of organizational documents, existing debt instruments, etc.; and

(iv) Documentation of lender eligibility in accordance with § 3575.27.

(2) If the Agency determines that the project may meet requirements and is likely to be funded, the lender must submit a complete application if it has not previously submitted one. The Agency must do an environmental review before further processing will be completed.

(b) Applications. Contents of application package:

(1) Application for Loan and Guarantee (available in any Agency office);

(2) Proposed loan agreement;

(3) Request for Environmental Information (available in any Agency office);

(4) Preliminary architectural or engineering report;

(5) Cost estimates;

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- (6) Appraisal reports (as appropriate);
- (7) Credit reports;
- (8) Financial feasibility analysis and report; and
- (9) Any additional information required.

§ 3575.53 Evaluation of application.

If the Agency determines that the borrower is eligible, the proposed loan is for an eligible purpose, there is reasonable assurance of repayment ability, sufficient collateral and equity exist, the proposed loan complies with all applicable statutes and regulations, the environmental review is complete and considered in determining compliance, and adequate funds are available, the Agency will provide the lender and the borrower with the Conditional Commitment for Guarantee listing all conditions for the guarantee. Applicable requirements will include the following:

- (a) Approved use of guaranteed loan funds (source and use of funds);
- (b) Rates and terms of the loan;
- (c) Scheduling of payments;
- (d) Number of customers;
- (e) Security and lien priority;
- (f) Appraisals;
- (g) Insurance and bonding;
- (h) Financial reporting;
- (i) Equal opportunity and nondiscrimination;
- (j) Environment or mitigation;
- (k) Americans with Disabilities Act;
- (l) By-laws and articles of incorporation changes; and
- (m) Other requirements necessary to protect the Government.

§ 3575.54 Timeframe for processing.

All guaranteed loan applications must be approved or disapproved and the lender notified, in writing, not later than 30 days after receipt of a completed application.

(a) If an application is not complete, the lender will be notified, in writing (not later than 10 days after receipt of the application by the Agency), of the item(s) missing from the application.

(b) When National Office approval is required, the application will be sent by express mail service within 30 days, and the National Office will respond within 30 days.

§§ 3575.55 - 3575.56 [Reserved]

§ 3575.57 Loan approval and obligating funds.

(a) General. The State Director will prepare an original and two copies of the Request for Obligation of Funds - Guaranteed Loans. The State Director will sign the original and one copy and conform the second copy. Notice of approval to the lender will be accomplished by providing or sending the lender the signed copy of the Request for Obligation of Funds - Guaranteed Loans and the Conditional Commitment for Guarantee on the obligation date. For each initial loan, the borrower record will be entered utilizing the GLS borrower menu. The State Director will record the actual date of lender notification on the original request for obligation and retain the original of the form and the remaining conformed copy. The State Director will use the State Office terminal to request reservation/obligation of funds. Use of the telephone for the reservation/obligation of funds is restricted to those instances when the State Office terminal is inoperative and will be completed as follows:

(1) Immediately after contacting the DCFO, the requesting official will furnish the requesting office's security identification code. Failure to furnish the security code will result in rejection of the request for reservation of authority. After the security code is furnished, all pertinent information contained on request for obligation will be furnished to the DCFO. Upon receipt of the telephone request for reservation of authority, the DCFO will record all information necessary to process the request for reservation in addition to the date and time of the request.

(2) The individual making the telephone request will record the date and time of the telephone request and sign the request for obligation.

(3) The DCFO will terminally process telephone reservation requests. Those requests for reservations received before 2:30 p.m. Central Time (to the extent possible) will be processed on the date received; however, there may be instances in which the reservation will be processed on the next working day.

(4) On each working day, the DCFO will notify the State Office by telephone of all projects for which authority was reserved during the previous night's processing cycle and the date of obligation. If authority cannot be reserved for a project, the DCFO will notify the State Office that authority is not available within the State allocation.

(b) Obligation date. The obligation date will be 6 working days from the date of the request for reservation of funds (unless waived by the National Office). Immediately upon verification of the reservation of funds, the State Director will contact the Legislative and Public Affairs Staff in the National Office as required by RD Instruction 2015-C.

§ 3575.58 National Office review.

The following will be submitted to the National Office when the loan guarantee is not within the State Director's loan approval authority.

- (a) Transmittal memorandum including:
  - (1) Recommendation,
  - (2) Date of expected obligation, and
  - (3) Any unusual circumstances.
- (b) Preapplication package (if applicable),
- (c) Application package,
- (d) Project Summary, as applicable, and
- (e) Conditional Commitment for Guarantee.

§ 3575.59 Review of requirements.

(a) Lender and borrower. The lender and borrower must complete and sign the Acceptance of Conditions and return a copy to the Agency as soon as possible. Notwithstanding the preceding sentence, if certain conditions cannot be met, the lender and borrower may propose alternate conditions for Agency consideration.

(b) Cancellation. If the lender decides at any time after receiving a Conditional Commitment for Guarantee that it no longer wants a guarantee, the lender must immediately advise the Agency of the cancellation.

(c) Modifications. The lender agrees that once the Conditional Commitment for Guarantee is issued and accepted by the lender and borrower, it will not be modified as to the scope of the project, overall facility concept, project purpose, use of proceeds, or other terms and conditions.

§§ 3575.60 - 3575.62 [Reserved]

§ 3575.63 Conditions precedent to issuance of the Loan Note Guarantee.

The Loan Note Guarantee will not be issued until:

(a) The lender certifies that:

(1) No changes have been made in the lender's loan conditions and requirements since the issuance of the Conditional Commitment for Guarantee except those approved in the interim by the Agency in writing.

(2) All planned property acquisition has been completed and all development has been substantially completed in accordance with plans, specifications, and applicable building codes. No costs have exceeded the amounts approved by the lender and the Agency.

(3) Required insurance is in effect.

(4) All equal opportunity and Fair Housing Plan requirements have been met.

(5) The loan has been properly closed and the required security instruments have been obtained on any after-acquired property that cannot be covered initially under State statutory provisions.

- (6) The borrower has marketable title to the collateral then owned by the borrower, subject to the instrument securing the loan to be guaranteed and subject to any other exceptions approved, in writing, by the Agency.
  - (7) When required, the entire amount of the loan for working capital has been disbursed except in cases where the Agency has approved disbursement over an extended time.
  - (8) All other requirements of the Conditional Commitment for Guarantee have been met.
  - (9) Lien priorities are consistent with requirements of the Conditional Commitment for Guarantee.
  - (10) The loan proceeds have been disbursed for purposes and in amounts consistent with the Conditional Commitment for Guarantee and as specified on the application for the guaranteed loan. A copy of a detailed statement by the lender detailing the use of loan funds will be attached to support this certification.
  - (11) There has been no substantive adverse change in the borrower's financial condition nor any other adverse change in the borrower during the period of time from the Agency's issuance of the Conditional Commitment for Guarantee to issuance of the Loan Note Guarantee. The lender's certification must address all adverse changes of the borrower and the guarantors. For purposes of this paragraph, the term borrower includes any parent, affiliate, or subsidiary of the borrower.
  - (12) All Federal, State, and local design and construction requirements have been met.
  - (13) The lender understands and will meet the requirements of the Debt Collection Act (chapter 37 of title 31 of the United States Code).
  - (14) The lender would not make the loan without an Agency guarantee.
- (b) The lender has executed and delivered the Lender's Agreement and closing report along with the appropriate guarantee fee.
- (c) The lender has advised the Agency of plans to sell or assign any part of the loan as provided in the Lender's Agreement.

## § 3575.63 (Con.)

(d) Where applicable, the lender must certify that the borrower has obtained:

(1) A legal opinion relative to the title to rights-of-way and easements. Lenders are responsible for ensuring that borrowers have obtained valid, continuous, and adequate rights-of-way and easements needed for the construction, operation, and maintenance of a facility.

(2) A title opinion or title insurance showing ownership of the land and all mortgages or other lien defects, restrictions, or encumbrances, if any. It is the responsibility of the lender to ensure that the borrower has obtained and recorded such releases, consents, or subordinations to such property rights from holders of outstanding liens or other instruments as may be necessary for the construction, operation, and maintenance of the facility and to provide the required security. For example, when a site is for major structures for utility-type facilities (such as a gas distribution system) and the lender and borrower are able to obtain only a right-of-way or easement on such a site rather than a fee simple title, such a title opinion must be requested.

(e) For loans exceeding \$150,000, the lender has certified its compliance with the Anti-Lobby Act (18 U.S.C. 1913). Also, if any funds have been, or will be, paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with this commitment providing for the United States to guarantee a loan, the lender shall completely disclose such lobbying activities in accordance with 31 U.S.C. 1352.

(f) If the Loan Note Guarantee cannot be issued before the Conditional Commitment expires, the lender must submit a written request for an extension of the expiration date. The lender must document and certify to paragraph (a)(1) and (a)(11) of this section specifically identifying any modifications.

(g) Coincident with, or immediately after, loan closing, the lender will contact the Agency and provide those documents and certifications required in this section. For loans to public bodies, lenders may require an opinion from recognized bond counsel regarding the adequacy of the preparation and issuance of the debt instruments. Only when the Agency is satisfied that all conditions for the guarantee have been met will the Loan Note Guarantee be executed.



§ 3575.64 Issuance of Lender's Agreement, Loan Note Guarantee, and Assignment Guarantee Agreement.

(a) Lender's Agreement. If the Agency finds that all requirements have been met, the lender and the Agency will execute the Lender's Agreement. The original will be retained by the Agency and a signed duplicate original will be retained by the lender. A separate Lender's Agreement must be executed for each loans to be guaranteed by the Agency. Any information regarding a new lender or changes to existing lender information should be provided to the DCFO utilizing the GLS. For lender mergers, the SO will provide the DCFO with the lender ID's, names, addresses, and branch numbers.

(b) Loan Note Guarantee.

(1) Upon receipt of the executed Lender's Agreement and after all requirements have been met, the Agency will execute the Loan Note Guarantee. All originals of the Loan Note Guarantee will be provided to the lender and attached to the note.

(2) If the lender has selected the multi-note system, a Loan Note Guarantee will be prepared and attached to each note the borrower issues. All the notes will be listed on the Loan Note Guarantee. Not more than ten notes will be issued for the guaranteed portion (unless the Agency and borrower agree otherwise) and one note issued for the unguaranteed portion.

(c) Assignment Guarantee Agreement. In the event the lender assigns the guaranteed portion of the loan to a holder, the lender, holder, and Agency will execute an Agency prescribed Assignment Guarantee Agreement. The original of the agreement will be provided to the holder with conformed copies to the lender and the Agency. If the lender desires to assign a part of the guaranteed loan to a holder, an Agency prescribed Assignment Guarantee Agreement will be executed for each assigned portion.

(d) Failure to meet Conditional Commitment. If the Agency determines that it cannot execute the Loan Note Guarantee because all requirements have not been met, the lender will have a reasonable period within which to satisfy the objections. If the lender satisfies the objections within the time allowed, the guarantee will be issued.

(e) Guaranteed Loan Closing Report. The lender will prepare and deliver a Guaranteed Loan Closing Report for each loan to be guaranteed and a guarantee fee to the Agency servicing office in return for the Loan Note Guarantee.

## § 3575.64 (Con.)

(f) Cancellation of obligation. If the conditions for the loan are rejected or cannot be met after completion of any appeal, the State Director will cancel the obligation. This can be done using the State Office terminal.

(g) Authorized representatives to execute forms. State Directors (or their designated representatives) are authorized to execute the Lender's Agreement, the Loan Note Guarantee, or the Assignment Guarantee Agreement.

§ 3575.65 Lender's sale or assignment of the guaranteed portion of loan.

The lender may retain all of the guaranteed loan. The lender must not sell or participate any amount of the guaranteed or non-guaranteed portion of the loan to the borrower or members of their immediate families, their officers, directors, stockholders, other owners, or a subsidiary or affiliate. Disposition of the guaranteed portion of a loan may not be made prior to full disbursement, completion of construction, and acquisition of real estate and equipment without the prior written approval of the Agency. If the lender desires to market all or part of the guaranteed portion of the loan at, or subsequent to, loan closing, the loan must not be in default.

(a) Assignment. Any sale or assignment by the lender of the guaranteed portion of the loan must be accomplished in accordance with the conditions in the Lender's Agreement.

(b) Participation. The lender may obtain participation in the loan under its normal operating procedures.

(c) Minimum retention. The lender is required to hold in its own portfolio, or retain, a minimum of 5 percent of the total loan amount. This amount must be of the non-guaranteed portion of the loan and cannot be participated to another. The lender may sell the remaining amount of the non-guaranteed portion of the loan only through participation.

## §§ 3575.66 - 3575.68 [Reserved]

§ 3575.69 Loan servicing.

(a) Lender responsibilities. The lender will be responsible for servicing the entire loan in accordance with the Lender's Agreement. The unguaranteed portion of the loan will not be paid first nor given any preference or priority over the guaranteed portion of the loan. The lender is responsible for taking all servicing actions that a prudent lender would perform in servicing a portfolio of loans that are not guaranteed. This responsibility includes, but is not limited to, the collection of payments; obtaining compliance with the covenants and provisions in the note, loan agreement, security instrument, or any supplemental agreements; obtaining and analyzing financial statements; verifying the payment of taxes and insurance premiums; and maintaining liens on collateral. The lender must notify the Agency of any violation of the loan agreement with the borrower within 30 days of such violation.

(b) Financial reports. The lender must obtain the financial statements required by the Loan Agreement. The lender must submit the borrower's annual financial statements to the Agency servicing office within 120 days of the end of the borrower's fiscal year. The lender must analyze the financial statements and provide the Agency servicing office with a written summary of the lender's analysis and conclusions, including trends, strengths, weaknesses, extraordinary transactions, and other indications of the financial condition of the borrower. Additionally, when applicable, the lender will require an audit in accordance with Office of Management and Budget (OMB) circulars (available in any Agency office).

(c) Delinquent loans. The lender will service delinquent loans in accordance with the Lender's Agreement and reasonable and prudent lending standards.

(d) Loan balances. The lender must report to the Agency the outstanding principal and interest balance on each guaranteed loan semiannually Guaranteed Loan Status Report. The DCFO will mail this report directly to the lender. The lender will complete the form and mail it back to the DCFO.

(e) Collateral inspections. The lender will inspect the collateral as often as necessary to properly service the loan.

§ 3575.70 Loan classification.

All CP guaranteed loans will be classified by the Agency at loan closing and again whenever there is a change in the loan which would impact on the original classification. The loans will be classified as set out in RD Instruction 1904-C (available in any Agency office).

§§ 3575.71 - 3575.72 [Reserved]

§ 3575.73 Replacement of loss, theft, destruction, mutilation, or defacement of Loan Note Guarantee or Assignment Guarantee Agreement.

(a) Replacement of Loan Note Guarantee. The Agency may issue a replacement Loan Note Guarantee or Assignment Guarantee Agreement which may have been lost, stolen, destroyed, mutilated, or defaced to the lender or holder upon receipt of a certificate of loss and an indemnity bond in accordance with this section.

(b) Lender responsibilities. When a Loan Note Guarantee or Assignment Guarantee Agreement is lost, stolen, destroyed, mutilated, or defaced while in the custody of the lender or holder, the lender will coordinate the activities of the party who seeks the replacement documents and will submit the required documents to the Agency for processing. The requirements for replacement are as follows:

- (1) A certificate of loss properly notarized which includes:
  - (i) Legal name and present address of either the lender or the holder who is requesting the replacement forms;
  - (ii) Legal name and address of the lender of record;
  - (iii) Capacity of person certifying;
  - (iv) Full identification of the Loan Note Guarantee or Assignment Guarantee Agreement, including the name of the borrower, Agency case number, date of the Loan Note Guarantee, Assignment Guarantee Agreement, face amount of the evidence of debt purchased, date of evidence of debt, present balance of the loan, percentages of guarantee and, if Assignment Guarantee Agreement, the original named holder and the percentage of the guaranteed portion of the loan assigned to that holder. Any existing parts of the document to be replaced must be attached to the certificate;

(v) A full statement of circumstances of the loss, theft, or destruction of the Loan Note Guarantee or Assignment Guarantee Agreement; and

(vi) The holder shall present evidence demonstrating current ownership of the Loan Note Guarantee and Note or Assignment Guarantee Agreement. If the present holder is not the same as the original holder, a copy of the endorsement of each successive holder in the chain of transfer from the initial holder to present holder must be included. If copies of the endorsement cannot be obtained, best available records of transfer must be presented to the Agency (e.g., order confirmation, canceled checks, etc.).

(2) An indemnity bond acceptable to the Agency shall accompany the request for replacement except when the holder is the United States, a Federal Reserve Bank, a Federal Government corporation, a State or Territory, or the District of Columbia. The bond shall be with surety except when the outstanding principal balance and accrued interest due the present holder is less than \$1,000,000 verified by the lender, in writing, in a letter of certification of balance due. The surety shall be a qualified surety company holding a certificate of authority from the Secretary of the Treasury and listed in Treasury Department Circular 580.

(3) All indemnity bonds must be issued and payable to the United States of America. The bond shall be in an amount not less than the unpaid principal and interest. The bond shall hold the Government harmless against any claim or demand which might arise or against any damage, loss, costs, or expenses which might be sustained or incurred by reasons of the loss or replacement of the instruments.

(4) In those cases where the guaranteed loan was closed under the provisions of the Multi-Note System, the Agency will not attempt to, or participate in, the obtaining of replacement notes from the borrower. It will be the responsibility of the holder to bear the costs of note replacement if the borrower agrees to issue a replacement instrument. Should such note be replaced, the terms of the note cannot be changed. If the evidence of debt has been lost, stolen, destroyed, mutilated, or defaced, such evidence of debt must be replaced before the Agency will replace any instruments.

§ 3575.75 Defaults by borrower.

(a) Lender notification of Agency. The lender must notify the Agency when a borrower is 30 days past due on a payment, has not met its responsibilities of providing the required financial statements, or is otherwise in default. The lender will continue to keep the Agency informed on a bimonthly basis via the Guaranteed Loan Borrower Default Status until such time as the loan is no longer in default. If a monetary default exceeds 60 days, the lender will arrange a meeting with the borrower to resolve the default. The lender will provide a summary of the meeting and any decisions or actions agreed upon.

(b) Servicing options. In considering servicing options, the prospects for providing a permanent cure without adversely affecting the risks to the Agency and the lender must be the paramount objective. Temporary curative actions (such as payment deferments or collateral subordination) must strengthen the loan and be in the best financial interest of the lender and the Agency. Some of these actions may require concurrence of the holder.

(c) Multi-note. If the loan was closed with the multi-note option, the lender may need to possess all notes to take some servicing actions. In those situations when the Agency is holder of some of the notes, the Agency may endorse the notes back to the lender, provided a proper receipt is received from the lender which defines the reason for the transfer. Under no circumstances will the Agency endorse the original Loan Note Guarantee to the lender.

(d) National Office notification. The State Director will report all delinquent and problem loans quarterly to the appropriate National Office program division by the 20th day of January, April, July, and October.

(e) DCFO notification. The State Director will notify the DCFO of any change in payment terms such as reamortizations or interest rate adjustments and effective dates of any changes resulting from servicing actions.

§§ 3575.76 - 3575.77 [Reserved]

§ 3575.78 Repurchase of loan.

(a) Repurchase by lender. The lender has the option to repurchase the loan from a holder within 30 days of written demand from the holder when the borrower is in default not less than 60 days on payment. The repurchase will be for an amount equal to the unpaid guaranteed portion of principal and accrued interest less the lender's servicing fee. The guarantee does not cover the note interest to the holder on the guaranteed loan accruing after 90 days from the date of the demand letter to the lender. The holder will concurrently send a copy of the demand to the Agency. The lender will accept an assignment without recourse from the holder upon repurchase. The lender is encouraged to repurchase the loan to facilitate the accounting of funds, resolve the problem, and permit the borrower to cure the default, where reasonable. The lender will notify the holder and the Agency of its decision within 30 days of receipt of demand from the holder.

(b) Agency repurchase.

(1) If the lender does not repurchase as provided in paragraph (a) of this section, the Agency will purchase from the holder the unpaid principal balance of the guaranteed portion together with accrued interest to date of repurchase (less the lender's servicing fee) within 30 days after written demand to the Agency. The guarantee will not cover the note interest to the holder on the guaranteed loan accruing after 90 days from the date of the original demand letter. The lender shall not charge the Agency any servicing fees nor are any such fees collectible from the Agency.

(2) The holder's demand to the Agency must include a copy of the written demand made upon the lender. The holder or duly authorized agent must also include evidence of the right to require payment from the Agency. Such evidence will consist of either the original of the Loan Note Guarantee properly endorsed to the Agency or the original of the Assignment Guarantee Agreement properly assigned to the Agency without recourse including all rights, title, and interest in the loan. The Agency will be subrogated to all rights of the holder. The holder must include in the demand the amount due including unpaid principal, unpaid interest to date of demand, and interest subsequently accruing from the date of demand to the proposed payment date. Unless otherwise agreed to by the Agency, such proposed payment will not be later than 30 days from the date of demand.

## § 3575.78(b) (Con.)

(3) The lender must promptly provide the Agency with the information necessary for the Agency's determination of the appropriate amount due the holder upon the Agency's notification to the lender of the holder's demand for payment. This information must be certified by an authorized officer of the lender. Any discrepancy between the amount claimed by the holder and the information submitted by the lender must be resolved before payment will be approved. The Agency will notify both parties and such conflict will suspend the running of the 30-day payment requirement.

(4) Any purchase by the Agency does not change, alter, or modify any of the lender's obligations to the Agency arising from the loan or guarantee nor does it waive any of the Agency's rights against the lender. The Agency may set off against the lender all rights inuring to the Agency as the holder of the instrument against the Agency's obligation to the lender under the Loan Note Guarantee.

(5) Upon receipt of the appropriate information, the Agency will review the demand and, after verification, will transmit the request to the DCFO utilizing Purchase of a Guaranteed Loan Portion for issuance of the appropriate payment. Upon issuance, the DCFO will notify the Agency office servicing the borrower and remit the check to the holder.

(6) When the Agency becomes the holder, the lender should be instructed to remit the Agency's share of the pro rata share of any payments received from the borrower, liquidation, or other proceeds to the State Office along with a completed Lender's Guaranteed Loan Payment.

(c) Repurchase for servicing. When the lender determines that repurchase of the guaranteed portion of the loan is necessary to service the loan, the holder must sell the guaranteed portion to the lender for the unpaid principal and interest balance (less the lender's servicing fee). The guarantee does not cover interest accruing after 90 days from the date of the lender's or Agency's letter requesting the holder to tender its guaranteed portion. The lender must not repurchase from the holder for arbitrage purposes to further its own financial gain. Any repurchase must be made only after the lender obtains the Agency written approval. If the lender does not repurchase the portion from the holder, the Agency may, at its option under extraordinary circumstances, purchase such guaranteed portion for servicing purposes.

## § 3575.79 [Reserved]



§ 3575.80 Interest rate changes after loan closing.

(a) General. Subject to the restrictions below, the borrower, lender, and holder (if any) may collectively effect a permanent reduction in the interest rate on their guaranteed loan at any time during the life of the loan on written agreement by all of the applicable parties. After such a permanent reduction, the Loan Note Guarantee will only cover losses of interest at the reduced interest rate. The Agency must be notified by the lender, in writing, within 10 calendar days of the change. When the Agency is a holder, it will concur only when it is demonstrated that the change is more viable than liquidation and that the Government's financial interests are not adversely affected. Factors which will be considered in making such determination are the Government's cost of borrowing money and the project's enhancement of rural development. The monetary recovery must be greater than the liquidation recovery, and the financial feasibility analysis must show the project's continued viability.

(1) Fixed rates cannot be changed to variable rates to reduce the interest rate to the borrower unless the variable rate has a ceiling which is less than the original fixed rate.

(2) Variable rates can be changed to a lower fixed rate. In a final loss settlement when qualifying rate changes are made with the required written agreements and notification, the interest will be calculated for the periods the given rates were in effect. The lender must maintain records which adequately document the accrued interest claimed.

(3) The lender is responsible for the legal documentation of interest rate changes. However, the lender may not issue a new note.

(b) Increases. No increases in interest rates will be permitted under the loan guarantee except the normal fluctuations in approved variable interest rate loans.

(c) Administrative. The State Director will notify the DCFO of any interest rate change utilizing Guaranteed Loan Borrower Adjustments. The State Director will make corrections to the Rural Community Facilities Tracking System reflecting the interest rate change. The Agency loan file, as well as the attachments to the copy of the promissory note in the file, will be documented by the State Director to reflect any change in the interest rate.

§ 3575.81 Liquidation.

Liquidation will occur when the lender concludes that liquidation of the guaranteed loan is necessary because of default or third party actions that the borrower cannot, or will not, cure or eliminate within a reasonable period of time and the Agency concurs with the lender; or the Agency, at any time, independently concludes that liquidation is necessary. The lender will proceed as expeditiously as possible, including giving any notices or taking any legal actions required by the security instruments.

(a) General. If a lender has made a loan guaranteed by the Agency under previous regulations, the lender has the option to liquidate the loan under the provisions of this subpart or under the provisions of previous regulations. The lender will notify the State Director, in writing, within 10 days after their decision to liquidate which regulatory provision it chooses to use. The lender may not choose some provisions of one regulation and other provisions of the other regulation.

(b) Acquiring property titles. If a lender acquires title to property (either through voluntary conveyance or foreclosure proceeding), the Agency may elect to permit the lender the option of calculating the final loss settlement using the net proceeds received at the time of the ultimate disposition of the property. The lender must submit to the Agency a written request to use this option within 15 days of acquiring title and the Agency must agree, in writing, prior to the lender submitting any request for estimated loss payment.

(c) Liquidation plan. The lender will (within 30 days after a decision to liquidate) submit to the Agency, in writing, a proposed, detailed liquidation plan. Upon approval by the Agency of the liquidation plan, the lender will commence liquidation. (State Directors have no authority to exercise the option to liquidate by the Agency without National Office approval. The Notice of Liquidation Responsibility will be forwarded to the DCFO when the Agency liquidates the loan.) The lender's liquidation plan must include, but is not limited to, the following:

(1) Such proof as the Agency requires to establish the lender's ownership of the guaranteed loan notes and related security instruments, a copy of the payment ledger or other documentation which reflects the outstanding loan balance and accrued interest to date, and the method of computing the interest;

- (2) A complete list of collateral;
  - (3) The recommended liquidation methods for making the maximum collection possible on the indebtedness and the justification for such methods, including the recommended action for acquiring and disposing of all collateral;
  - (4) Necessary steps for preservation of the collateral;
  - (5) Copies of the borrower's latest available financial statements;
  - (6) An itemized list of estimated liquidation expenses expected to be incurred and justification for each expense;
  - (7) A schedule to periodically report to the Agency on the progress of the liquidation;
  - (8) Estimated protective advance amounts with justification;
  - (9) Proposed protective bid amounts on collateral to be sold at auction and a discussion of how the amounts were determined;
  - (10) If a voluntary conveyance is considered, the proposed amount to be credited to the guaranteed debt;
  - (11) Legal opinions, as needed; and
  - (12) If the outstanding balance of principal and interest is less than \$250,000, the lender will obtain an estimate of fair market and potential liquidation value of the collateral. If the outstanding balance of principal and interest is \$250,000 or more, the lender will obtain an independent appraisal report on all collateral securing the loan which will reflect the fair market value and potential liquidation value. The independent appraiser's fee will be shared equally by the Agency and the lender.
- (d) Partial liquidation plan. If actions are necessary to immediately preserve and protect the collateral, a partial liquidation plan may be submitted and, when approved, must be followed by a complete liquidation plan prepared by the lender. State Directors, within delegated authority, may approve both partial and complete liquidation plans. Approval of partial liquidation plans must be in the best interest of the Government.

§ 3575.81 (Con.)

(e) Disposition of collateral. Disposition of collateral must be approved, in writing, by the Agency when:

(1) The lender's cost to acquire the collateral of a borrower exceeds the potential recovery value of the security and the lender proposes abandoning the collateral in lieu of liquidation, or

(2) The sale of acquired collateral is to be sold to the borrower, borrower's stockholders or officers, or the lender or lender's stockholders or officers.

(f) Agency liquidation. The Agency will liquidate at its option only when it is a holder and there is reason to believe the lender is not likely to initiate liquidation efforts that will result in maximum recovery. When the Agency liquidates, reasonable liquidation expenses will be assessed against the proceeds derived from the sale of the collateral. In such cases, the State Director will forward the lender's liquidation plan, if available, with appropriate recommendations along with the State Director's objections to the lender's plan to the national Office for evaluation and approval or rejection of the State Director's recommendation. The State Director has no authority to exercise the option to liquidate without national Office approval. The State Director will send a Notice of Liquidation Responsibility and a Report of Liquidation Expense to the DCFO to report that the Agency has liquidation responsibility and is requesting payment of liquidation costs.

(g) Final loss payment. Final loss payments will be made only after all collateral for the loan has been properly accounted for and liquidation expenses are reasonable and within approved limits. Any estimated loss payments made to the lender will be credited against a final loss on the guaranteed loan. The estimated loss payment must be credited as a deduction from the principal balance of the loan. State Directors are responsible for seeing that such reviews are accomplished by the State within 30 days. Final loss claims in excess of the State Director's approval authority will be forwarded to be accepted or otherwise resolved by the National Office within the 60-day period. The State Director may request National Office assistance in the conduct of any review. All reviews for final loss claims in excess of the State Director's approval authority (see subpart A of part 1901 of this chapter) will be submitted to the National Office for concurrence prior to the State Director's approval of the claim. Close scrutiny of

liquidation proceeds and their application in accordance with lien priorities is required. Before final loss payments are approved, and to assist in the required review, the State Director will prepare a narrative history of the guarantee transaction which will serve as the summary of occurrences which led to the failure of the borrower and actions taken to maximize loan recovery. The original of this report will be filed in the loan casefile.

(h) Administrative.

(1) State Directors are responsible for review and acceptance of accounting reports as submitted by lenders and for submission of such reports to lenders when the Agency is conducting liquidation.

(2) State Directors, within delegated authority, are authorized to approve final reports of loss from the lender.

(3) The State Director will submit the Loan Note Guarantee, Report of Loss to the DCFO for payment of any loss claims of the lender. The DCFO forwards loss payment checks to the State Director for delivery to the lender. When a loss claim is involved on a particular loan guarantee, ordinarily one estimated Report of Loss will be authorized. In the case of bankruptcy, more than one estimated Report of Loss may be authorized. Only one final Report of Loss will be authorized. A final Report of Loss must be filed with the DCFO at the completion of liquidation. The DCFO will use this report to close the account.

§ 3575.82 [Reserved]

§ 3575.83 Protective advances.

Protective advances can only be added to the loan account for purposes of requirements to preserve the value of the security. Protective advances constitute an indebtedness of the borrower to the lender and must be secured by collateral to the same extent as principal and interest. Protective advances include, but are not limited to, advances made for taxes, annual assessments, ground rent, hazards, and flood insurance premiums affecting the collateral (including any other expenses necessary to protect the collateral). Attorney fees are not a protective advance.

(a) Agency approval. The Agency must approve, in writing, all protective advances on loans within its loan approval authority which exceed a total cumulative advance of \$5,000 to the same borrower. Protective advances must be reasonable when associated with the value of the collateral being preserved.

## § 3575.83 (Con.)

(b) Preserving collateral interests. When considering protective advances, sound judgment must be exercised in determining that the additional funds advanced will actually preserve collateral and recovery is actually enhanced by making the advance.

§ 3575.84 Additional loans or advances.

The lender will not make additional expenditures or new loans to the borrower without first obtaining the written approval of the Agency even though such expenditures or loans will not be guaranteed. The State Director may approve within their loan approval authority additional nonguaranteed loans or advances prior to, or subsequent to, the issuance of the Loan Note Guarantee. The State Director shall determine that there will be no adverse changes in the borrower's financial situation and that such loan or advance is not likely to adversely affect the collateral or the guaranteed loan.

§ 3575.85 Bankruptcy.

(a) Calculating losses. Report of Loss form (available in any Agency office) will be used for calculating estimated and final loss determinations.

(b) Lender responsibility. The lender is responsible for protecting the guaranteed loan debt and all the collateral securing it in bankruptcy proceedings. These responsibilities include, but are not limited to, the following:

- (1) Filing a proof of claim, where necessary, and all the necessary papers and pleadings;
- (2) Attending and, where necessary, participating in meetings of the creditors and all court proceedings;
- (3) Immediately seeking adequate protection of the collateral if it is subject to being used by the trustee in bankruptcy or if the debtor is in possession;
- (4) Where appropriate, seeking involuntary conversion of a pending chapter 11 case to a liquidation proceeding or seek dismissal of the proceedings; and
- (5) Keeping the Agency adequately and regularly informed, in writing, of all aspects of the proceedings.

- (c) Appraisals. In a chapter 9 or chapter 11 reorganization, the lender must obtain an independent appraisal of the collateral if the Agency believes an independent appraisal is necessary. The Agency and the lender will share such appraisal fee equally.
- (d) Liquidation expenses. Only expenses authorized by the court of chapter 11 reorganizations or chapters 11 or 7 liquidation (unless the liquidation is by the lender) may be deducted from the collateral proceeds.
- (e) Repurchase from the holder. The Agency or the lender, with the approval of the Agency, may initiate the repurchase of the unpaid guaranteed portion of the loan from the holder. If the lender is the holder, an estimated loss payment may be filed at the initiation of a chapter 7 proceeding or after a chapter 11 proceeding becomes a liquidation proceeding. Any loss payment on loans in bankruptcy must be approved by the Agency. The State Director may approve the repurchase of the unpaid guaranteed portion of the loan from the holder to reduce interest accrual during chapter 7 proceedings or after a chapter 11 proceeding becomes a liquidation proceeding.
- (f) Chapter 11 bankruptcy. If a borrower has filed for protection under chapter 11 of the United States Code for a reorganization (but not chapter 13) and all or a portion of the debt has been discharged, the lender may request an estimated loss payment of the guaranteed portion of the accrued interest and principal discharged by the court. If the court approves revisions to the chapter 11 reorganization plan, subsequent estimated loss payments may be requested in accordance with the court approved changes. Once the reorganization plan has been satisfactorily completed, the lender is responsible for submitting the documentation necessary for the Agency to review and adjust the estimated loss claim to reflect any actual discharge of principal and interest and to reimburse the lender for any court ordered interest-rate reduction under the terms of the reorganization plan.
- (g) Agency approval of liquidation expenses. The Agency must approve, in advance and in writing, the lender's estimated liquidation expenses of collateral in a liquidation if the liquidation is performed by the lender. These expenses must be reasonable and customary and not include in-house expenses of the lender.
- (h) Reconciliation. In the event that the estimated loss payment exceeds the actual loss, the lender will reimburse the Agency the amount in excess of the actual loss plus interest at the note rate from the date of the estimated loss payment approved by the Agency.

## § 3575.85 (Con.)

(i) National Office notification. All bankruptcy cases should be reported immediately to the National Office by utilizing and completing a problem or delinquent status report (Guaranteed Loan Borrower Default Status). The Regional Attorney must be informed promptly of the proceedings.

## §§ 3575.86 - 3575.87 [Reserved]

§ 3575.88 Transfers and assumptions.

(a) General. For all transfers and assumptions, the lender must concur in the plans for disposition of funds in the transferor's debt service, reserve, and operation and maintenance account. The Agency will approve, in writing, transfers and assumptions of loans to transferees who will continue the original purpose of the guaranteed loan subject to the following applicable provisions:

- (1) When the transaction is to a member of the borrower's organization, it will be at an amount which will not result in a loss to the lender.
- (2) Transfers to eligible borrowers will receive preference if recovery to the lender from the sale price is not less than it would be if the transfer was to an ineligible borrower.
- (3) The present borrower is unable or unwilling to accomplish the objectives of the guaranteed loan, and the transfer will be to the lender's and Agency's advantage.
- (4) The transferee will assume an amount at least equal to either the present market value or the debt, whichever is less.

(b) Transfers to an eligible borrower.

- (1) The total indebtedness may be transferred to an eligible borrower on the same terms.
- (2) The total indebtedness may be transferred to another eligible borrower on different terms not to exceed those terms for which an initial guaranteed loan can be made.
- (3) Less than the total indebtedness may be transferred to another eligible borrower on the same or different terms and the pro rata share of any eligible loss paid to the lender.



(4) A guaranteed loan for which the transferee is eligible may be made in connection with a transfer subject to the policies and procedures governing the type of loan being made.

(5) If the transferor is to receive a payment for the equity, the total debt must be assumed.

(c) Ineligible borrower. Transfers to ineligible borrowers are considered only when needed as a method for servicing problem cases when an eligible transferee is not available. Transfers should not be considered as a means by which members can obtain equity or as a method of providing a source of easy credit for purchasers. Transfers must meet the following requirements;

(1) All transfers to ineligible borrowers will include a one-time nonrefundable transfer fee to the Agency of no more than 1 percent. Transfer fees will be collected, and payments applied, in accordance with paragraph (d) of this section.

(2) For all loans covered by this subpart, the Agency may approve a transfer of indebtedness to, and assumption of, a loan by a transferee who does not meet the eligibility requirements for the kind of loan being assumed when the ineligible borrower will:

(i) Make a significant down payment, and

(ii) Agree to pay the remaining balance within not more than 15 years. Installments will be at least equal to the amount amortized over a period not greater than the remaining life of the debt being transferred, and the balance will be due the fifteenth year.

(3) Interest rates to ineligible transferees will be the rate specified in the note of the transferor or the rates customarily charged borrowers in similar circumstances in the ordinary course of business and are subject to Agency review and approval. The rates may be either fixed or variable.

(i) Transferees must have the ability to repay as determined by the lender the debt according to the Assumption Agreement and must have the legal authority to enter into the contract. The transferee will submit a current balance sheet to the lender. The lender will obtain and analyze the credit history of the transferee.

## § 3575.88(c)(3) (Con.)

(ii) The transferor may receive equity payments only when the full amount of the debt is assumed. However, equity payments will not be made on more favorable terms than those on which the balance of the debt will be paid.

(d) Transfer fees. Transfer fees are a one-time nonrefundable cost to be collected by the lender at the time of application or proposal.

(1) The transfer fees will be a standard fee plus the cost of the appraisal. This fee will be established by the National Office and issued periodically to all State Offices for further distribution.

(2) The lender will collect and submit the fee to the Agency servicing office. The State Director will submit the fee to the DCFO (identified as a transfer fee). In this case, the field offices should deposit the fee using the Schedule of Remittances and miscellaneous collection code 30 (guaranteed loan fees).

(3) The Agency may waive the transfer fee if it determines that such waiver is in the best interest of the Agency. The file will be submitted to the National Office with appropriate recommendations for the request.

(e) Processing transfers and assumptions.

(1) In any transfer and assumption case, the transferor (including any guarantor) may be released from liability by the lender only with prior Agency written concurrence and only when the value of the collateral being transferred is at least equal to the amount of the loan, or part of the loan, being assumed. If the transfer is for less than the entire debt:

(i) The Agency must determine that the transferor and any guarantor have no reasonable debt-paying ability considering their assets and income at the time of transfer, and

(ii) The lender must certify that the transferor has cooperated in good faith, used due diligence to maintain the collateral against loss, and has otherwise fulfilled all of the regulations of this subpart to the best of the borrower's ability.

(2) The lender will make, in all cases, a complete credit analysis to determine viability of the project (subject to the Agency review and approval) including any requirement for deposit in an escrow account as security to meet the determined equity requirements for the project.

(3) The lender will confirm the transaction can be properly transferred and the conveyance instruments will be filed, registered, or recorded as appropriate and legally permissible.

(4) The assumption will be made on the lender's form of Assumption Agreement and will contain the Agency case number of the transferor and transferee.

(5) Loan terms cannot be changed by the Assumption Agreement unless previously approved, in writing, by the Agency with the concurrence of the holder and the transferor (including guarantor) if it has not been released from personal liability). Any new loan terms cannot exceed those authorized in this subpart. The lender's request will be supported by:

(i) An explanation of the reasons for the proposed change in the loan terms, and

(ii) Certification that the lien position securing the guaranteed loan will be maintained or improved, and proper hazard insurance will be continued in effect.

(6) In the case of a transfer and assumption, it is the lender's responsibility to see that all such transfers and assumptions will be noted on all originals of the Loan Note Guarantee. The lender will provide the Agency a copy of the Transfer and Assumption Agreement.

(7) If a loss should occur upon a complete transfer of assets and assumption for less than the full amount of the debt and the transferor-debtor (including personal guarantor) is released from personal liability (as provided in paragraph (e) of this section), the lender (if holding the guaranteed portion) may file an estimated Loan Note Guarantee, Report of Loss to recover their pro rata share of the actual loss at that time. Approved protective advances and accrued interest made during the arrangement of a transfer and assumption, if not assumed by the transferee, will be entered on the estimated Report of Loss. In completing the Report of Loss, the amount of the debt assumed will be entered on line 24 as Net Collateral (Recovery).

§ 3575.88(e) (Con.)

(8) The State Director may approve all transfer and assumption provisions if the guaranteed loan debt balance is within their loan approval authority including:

(i) Consent in writing to the release of the transferor and guarantors from liability.

(ii) Any changes in loan terms.

(iii) The assumption will be reviewed as if it were a new loan. The Loan Note Guarantee will be endorsed in the space provided on the form.

(9) If the guaranteed loan debt balance is in excess of the State Director's loan approval authority, the State Director will forward the file, together with their recommendations, to the National Office for approval.

(10) A copy of the Assumption Agreement will be retained in the Agency file. The State Director will notify the DCFO of all approved transfers and assumptions utilizing Notification of Transfer and Assumption of a Guaranteed Loan. Additions, deletions, or changes in loan borrower information on guaranteed loan records will be entered utilizing GLS.

(f) Submission to National Office.

(1) Under any of the following conditions, a proposed transfer or assumption will be forwarded to the National Office for prior review and approval before making any commitments:

(i) Proposals which will involve a loss to the Government; or

(ii) The prospective transferee is a member of the present borrower's organization; or there is an identity of interests present; or

(iii) Proposals for transfer or assumption are made on more liberal terms than set forth in paragraph (b) and (c) of this section; or

(iv) Proposals for a cash down payment to the present borrower in an amount which exceeds the actual sales expenses; or

(v) The transfer fee is to be waived for a prospective transferee.

- (2) All submissions to the National Office will contain:
  - (i) Transfer casefile,
  - (ii) OGC comments on the proposed transfer or assumption,
  - (iii) Appropriate forms to complete the transfer prepared by the transferee,
  - (iv) Completed environmental review, and
  - (v) Any other necessary supporting information.

§ 3575.89 Mergers.

(a) General. The Agency may approve mergers or consolidations (herein referred to as "mergers") when the resulting organization will be eligible for an Agency guaranteed loan and assumes all the liabilities and acquires all the assets of the merged borrower. Mergers may be approved when:

- (1) The merger is in the best interest of the Government and the merging borrower;
- (2) The resulting borrower can meet all required conditions as contained in specific loan note agreements; and
- (3) All property can be legally transferred to the resulting borrower.

(b) Distinguishing mergers from transfers and assumptions. Mergers occur when one entity combines with another entity in such a way that the first entity ceases to exist as a separate entity while the other continues. In a consolidation, two or more entities combine to form a new, consolidated entity with the original entity ceasing to exist. Such transactions must be distinguished from transfers and assumptions in which a transferor will not necessarily go out of existence, and the transferee will not always take all the transferor's assets nor assume all the transferor's liabilities.

(c) Administrative. The State Office will notify the DCFO utilizing the borrower menu of GLS.

§ 3575.90 Disposition of acquired property.

(a) General. When the lender acquires title to the collateral and the final loss claim is not paid until final disposition, the lender must proceed as quickly as possible to develop a plan to fully protect the collateral, and the lender must dispose of the collateral without delay.

(b) Re-title of collateral. Any collateral accepted by the lender must not be titled in the Agency's name in whole or in part. The Agency's position is that of a guarantor relating to losses, not a lender.

(c) Collateral preservation. After acquiring the collateral, the lender must protect the collateral from deterioration (weather, vandalism, etc.). Hazard insurance in an amount necessary to cover the fair market value of the collateral must be maintained.

(d) Collateral sale.

(1) The lender will prepare and submit to the Agency a plan on the best method of sale, keeping in mind any prospective purchasers. The Agency must approve the plan in writing. If an existing approved liquidation plan addresses the disposition of acquired property, no further review is required unless modification of the plan is needed.

(2) Anytime there is a case when the conversion of collateral to cash can reasonably be expected to result in a negative net recovery amount, abandonment of the collateral should be considered. The Agency must approve abandonment in writing. When a decision to abandon the property is recommended, the State Director will document the recommendation in the file and forward the file to the National Office. The State Director is authorized to approve such decision with prior concurrence of the National Office.

§§ 3575.91 - 3575.93 [Reserved]

§ 3575.94 Determination and payment of loss.

In all liquidation cases, final settlement will be made with the lender after the collateral is liquidated. The Agency will have the right to recover losses paid under the guarantee from any liable party.

(a) General. If the lender takes title to collateral, any loss will be based on the collateral value at the time the lender obtains title.

(b) Loss calculations. The Report of Loss (available in any Agency office) will be used for calculations of all estimated and final loss determinations. Estimated loss payments may only be approved after the lender has submitted a liquidation plan approved by the Agency.

(c) Estimated loss payments. When the lender is conducting the liquidation and owns any of the guaranteed portion of the loan, they may request an estimated loss payment by submitting an estimate of loss that will occur in connection with liquidation of the loan. An estimated loss payment may be approved after the Agency has approved the liquidation plan.

(1) The lender will prepare and submit the Report of Loss using the appraised value in lieu of amount received from sale of collateral.

(2) The estimated loss payment shall be calculated as of the date of such payment. The total amount of the loss payment remitted by the Agency will be applied by the lender on the guaranteed portion of the loan debt. Such application does not release the borrower from liability. At the time of final loss settlement, the lender may notify the borrower that the loss payment has been so applied.

(3) After liquidation has been completed, a final Report of Loss will be submitted by the lender to the Agency.

(4) After the Report of Loss estimate has been approved by the State Director, and within 30 days thereafter, the State Director will send the original Report of Loss estimate to the DCFO for issuance of a Treasury check in payment of the estimated amount due the lender.

(d) Final Report of Loss. In all cases, a final Report of Loss must be submitted to the Agency. Before Agency approval of any final loss report, the lender must account for all funds obtained, disposition of the collateral, all costs incurred, and any other information necessary for the successful completion of liquidation. Upon receipt of the final accounting and Report of Loss, the Agency may conduct an audit and will determine the final loss. The lender will make their records available to, and otherwise assist, the Agency in making any audit it requires for the Report of Loss. The documentation accompanying the Report of Loss must support the loss claimed.

## § 3575.94(d) (Con.)

- (1) The lender must document and show that all of the collateral has been accounted for and properly liquidated and that liquidation proceeds have been properly accounted for and applied correctly on the loan. The Agency must be satisfied that the lender has accomplished this in the manner contained herein and that the lender has maximized the collections in conducting the liquidation.
  - (2) The lender must show a breakdown on any protective advance amount as to the payee, purpose of the expenditure, date paid, evidence that the amount expended was proper, and that the amount was actually paid.
  - (3) The lender should show a breakdown of liquidation expenses as to the payee, purpose of the expenditure, date paid, evidence that the amount expended was proper, and that the amount was actually paid.
  - (4) Accrued interest should be supported by attachments showing how the amount was accrued by the lender. A copy of the promissory note and ledger will be attached. If the interest rate was a variable rate, the lender must include documentation of changes in the selected base rate and when the changes in the loan rate became effective.
- (e) Liquidation income. Any net rental or other income that has been received by the lender from the collateral will be applied on the guaranteed loan debt.
- (f) Liquidation costs. Certain reasonable liquidation costs will be allowed during the liquidation process. The liquidation costs must be submitted as a part of the liquidation plan. Such costs will be deducted from gross proceeds received from the disposition of collateral unless the costs have been previously determined by the lender (with Agency concurrence) to be protective advances. If changed circumstances after submission of the liquidation plan require a revision of liquidation costs, the lender will obtain the Agency's written concurrence prior to proceeding with the proposed changes. No in-house expenses of the lender will be allowed.
- (g) Protective advance losses. In those instances where the lender made authorized protective advances, the lender may claim recovery for the guaranteed portion of any loss of monies advanced as well as interest resulting from such protective advances. These claims shall be included in the final Report of Loss.



(h) Final loss approval. After the final Report of Loss has been tentatively approved:

(1) If the actual loss is greater than any estimated loss payment, such loss will be paid by the Agency;

(2) If the actual loss is less than any estimated payment, the lender will reimburse the Agency;

(3) If the Agency has conducted the liquidation, it will provide an accounting to the lender and will pay the lender in accordance with the Loan Note Guarantee.

(i) Loss limits. The amount payable by the Agency to the lender cannot exceed the limits contained in the Loan Note Guarantee. If the Agency conducts the liquidation, loss occasioned by accruing interest will be covered by the guarantee only to the date the Agency accepts this responsibility. When the liquidation is conducted by the lender, loss occasioned by accruing interest will be covered to the extent of the guarantee to the date of final settlement provided the lender proceeds expeditiously with the liquidation plan approved by the Agency.

§ 3575.95 Future recovery.

After a loan has been liquidated and a final loss has been paid by the Agency, any future funds which may be recovered by the lender will be pro-rated between the Agency and the lender in accordance with the guaranteed percentage even if the Loan Note Guarantee has been terminated.

§ 3575.96 Termination of Loan Note Guarantee.

The Loan Note Guarantee under this subpart will terminate automatically:

(a) Upon full payment of the guaranteed loan; or

(b) Upon full payment of any loss obligation or negotiated loss settlement except for future recovery provisions; or

(c) Upon written request from the lender to the Agency, provided that the lender holds all of the guaranteed portion and the original Loan Note Guarantee is returned to the Agency.

(d) The State Director will notify the DCFO utilizing Guaranteed Loan Status Update Adjustment that the Loan Note Guarantee has been terminated or that the loan has been paid in full.

§§ 3575.97 - 3575.99 [Reserved]

§ 3575.100 OMB control number. The reporting and recordkeeping requirements contained in this regulation have been approved by the Office of Management and Budget and have been assigned OMB control number 0575-0137.

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FINANCIAL FEASIBILITY REPORT (GENERAL)

General. The following may be used as a guide for the preparation of financial feasibility reports as required. The guide contains minimal guidelines and the reports writer is expected to fully disclose and analyze all significant factors that may have a favorable or adverse effect on the financial success of the proposed facility.

- (a) Need for the facility.
- (b) Existing facilities. Explain current capacities; rates or usage; activities; suitability for continued use; alternate usage; deficiencies in servicing, staffing, or physical conditions; and any other pertinent information.
- (c) Proposed facility.
  - (1) Description of construction and renovation by component parts including capacity of each component part and physical limiting factors.
  - (2) Explain and document the need for the facility. Include comments regarding the following:
    - (i) Service area
    - (ii) Population trends
    - (iii) Similar facilities and services in the area
    - (iv) Usage trends
    - (v) Community support
    - (vi) Regulatory agency approval
    - (vii) Economy in the service area
    - (viii) Analysis of staff and consultants
- (d) Financial information. Explain all assumptions, underlying and expected demand, use, and projections of financial data, such as:
  - (1) Changes in usage
  - (2) All income and expense

- (3) Rate structure
- (4) Allowance for collectible accounts
- (5) Depreciation life and method
- (6) Description of long-term debts

(e) Financial statements. The following financial statements must be prepared reflecting 5 years' projections:

- (1) Balance sheet for all funds
- (2) Statement of income and expense
- (3) Statement of cash flow (cash receipts and disbursements)
- (4) Comparison data for facilities in service area (latest year only)

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FINANCIAL FEASIBILITY REPORT (UTILITY)

General. A Preliminary Engineering Report should clearly describe the owner's present situation, analyze alternatives, and propose a specific course of action from an engineering perspective. The level of effort required to prepare the report and the depth of analysis within the report are proportional to the size and complexity of the proposed project. Agency projects must be modest in design, size, and cost, and be constructed and operated in an environmentally responsible manner. The following should be used as a guide for the preparation of Preliminary Engineering Reports for Rural Development financed utility systems.

Project planning area.

- (a) Location.
- (b) Environmental resources present.
- (c) Growth areas and population trends.

Existing facilities.

- (a) Location map.
- (b) History.
- (c) Condition of facilities.
- (d) Financial status of any operating central facilities.

Need for project.

- (a) Health and safety.
- (b) System O&M.
- (c) Growth.

Alternatives considered.

- (a) Description.
- (b) Design criteria.
- (c) Map.
- (d) Environmental impacts.

- (e) Land requirements.
- (f) Construction problems.
- (g) Cost estimates.
  - (1) Construction
  - (2) Non-construction and other projects
  - (3) Annual operation and maintenance
  - (4) Present worth
- (h) Advantages and disadvantages.

Proposed project (recommended alternative).

- (a) Project design.
- (b) Cost estimate.
- (c) Financial feasibility.
  - (1) Budget
  - (2) Service area
  - (3) Initial users
  - (4) Economy
  - (5) Usage trends
  - (6) Community support

Conclusions and recommendations.

TO: Administrator, RHS  
Stop 0787  
Washington, DC 20250-0787

ATTN: Community Facilities Division  
Guaranteed Loan Branch

SUBJECT: Request for Community Facilities Guaranteed Reserve Funds

State: \_\_\_\_\_

Name of Applicant:

General Description of Project (Describe the use of funds, scope of project, the type of facility and its capacity.)

(a) Amount of additional Guaranteed CF funds requested: \$ \_\_\_\_\_  
Project amount \$ \_\_\_\_\_ Guaranteed Loan amount \$ \_\_\_\_\_  
(Do not attach Guide 26 unless Direct CF funds are also required)

(b) Amount of Direct CF funds or CF Grant funds proposed for this project? \$ \_\_\_\_\_. (Please attach appropriate guides if reserve funds are needed for Direct or Grant.)

(c) Are funds being requested for an approved project that has encountered cost overruns due to high bids or unexpected construction problems that cannot be reduced by negotiation, redesign, or other means?                    yes \_\_\_\_\_ no \_\_\_\_\_

(d) State the priority of this project in relation to all others for which requests are pending in the National Office. (Attach a revised priority listing for previously submitted projects if necessary.)

(e) Is this project ready for obligation within 30 days?  
yes \_\_\_\_\_ no \_\_\_\_\_

If no, give estimated date project will be ready for obligation of funds. \_\_\_\_\_

(f) Has the appropriate environmental review documentation as required in accordance with 7 CFR part 1970, including any public notice requirements (if applicable), been completed for the project?  
yes \_\_\_\_\_ no \_\_\_\_\_

(g) If other funds are involved in this project, have they been committed? yes \_\_\_\_\_ no \_\_\_\_\_ Not Applicable \_\_\_\_\_

(h) Has all of the State's fund allocation been obligated?  
yes \_\_\_\_\_ no \_\_\_\_\_

If no, attach specific explanation of plans to use funds including a list of projects and planned dates of obligation.

\_\_\_\_\_  
, State Director

\_\_\_\_\_  
Date

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Quick Form Reference Guide

| Form Number          | Form Title   | Tran Code |
|----------------------|--|-----------|
| 424.1, 424.2         | Application for Federal Assistance   |           |
| 449-14               | Conditional Commitment for Guarantee   |           |
| 449-30               | Loan Note Guarantee-Report of Loss   | 4041      |
| 449-34               | Loan Note Guarantee  |           |
| 449-35               | Lender's Agreement   |           |
| 449-36               | Assignment Guarantee Agreement   |           |
| 451-2                | Schedule of Remittances  | 2A        |
| 1940-3               | Request for Obligation of Funds - Guaranteed Loans   | 1A        |
| <del>19740-201</del> | <del>Request for Environmental Information</del><br><a href="#">Environmental Checklist for Categorical Exclusions</a> |           |
| 1980-7               | Notification of Transfer and Assumption of a Guaranteed Loan   | 4037      |
| 1980-19              | Guaranteed Loan Closing Report   | 4030      |
| 1980-37              | RD Purchase of a Guaranteed Loan Portion   | 4035      |
| 1980-41              | Guaranteed Loan Status Report  | 4033      |
| 1980-42              | Notice of Substitution of Lender   | 4034      |
| 1980-43              | Lender's Guaranteed Loan Payment to USDA   | 4036      |
| 1980-44              | Guaranteed Loan Borrower Default Status  | 4038      |
| 1980-45              | Notice of Liquidation Responsibility   | 4039      |
| 1980-46              | Report of Liquidation Expenses   | 4040      |
| 1980-47              | Guaranteed Loan Borrower Adjustments   | 4046      |
| 1980-49              | Guaranteed Loan Status update Adjustment   | 4048      |
| 1980-51              | Add, Change, or Delete Guaranteed Loan Record  | 4053      |
| 1980-56              | Guaranteed Loan Borrower Deferment   | 4052      |
| 3575-1               | Application for Loan and Guarantee   | 4052      |

(03-19-03) PN 357