



**United States
Department of
Agriculture**

Rural
Development

COMMUNITY FACILITIES GUARANTEED LOAN PROGRAM

Lender's Handbook

Introduction

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

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

We can also arrange to give a presentation about the program to you in your office.

We look forward to working with you to help develop a variety of projects, such as:

Health Care

- Clinics
- Assisted Living
- Hospitals
- Medical Rehabilitation
- Camp for Mentally Disabled

Public Buildings

- Child Care
- Community Centers
- Food Preparation / Distribution

Cultural and Educational

- Private Schools
- Museums

Fire, Rescue and Public Safety

- Fire Stations
- Rescue and Ambulance Services

Other

- Animal Shelters

Program Overview

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

ELIGIBILITY

Eligible Entities: Funds are available to corporations operated on a not-for-profit basis and to Indian tribes. In addition, funds may be made available to some public entities, such as special-purpose districts.

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

Eligible Lenders: Guarantees are available to banks, savings and loans, mortgage companies which are part of a bank holding company, members of the Farm Credit System, or insurance companies regulated by the National Association of Insurance Commissioners. Other nonconventional lenders must be approved prior to participation in the program.

RATES, TERMS, AND FEES

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

Terms: The law authorizing the program allows a maximum repayment period of 40 years. However, the repayment period cannot exceed the useful life of the facilities financed or any statutory limitation on the applicant's borrowing authority.

Fees: Rural Development charges the lender a guarantee fee, which may be passed on to the borrower and is normally included in the loan. The guarantee fee is calculated on one-percent (1%) of the guarantee amount. The one-time guarantee fee is paid when the Loan Note Guarantee is requested.

COLLATERAL

Borrowers must pledge sufficient assets to ensure repayment of the loan. The security may include any combination of the following: real estate, machinery & equipment, assured income, or accounts receivable. Tax-exempt notes or bonds cannot be used as security for a guaranteed loan.

USE OF LOAN PROCEEDS

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

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

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

GENERAL REQUIREMENTS

Feasibility: All projects must be based on assured income in an amount sufficient to provide for operation and maintenance and debt repayment.

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

FUNDING AVAILABILITY

There are no minimum or maximum limits on funding; however, limits may exist depending on the availability of funds and/or the project's feasibility. The average size project under this program is about \$2 million. The program is subject to annual Congressional Appropriations and historically receives around \$210 million of funding annually. Loan guarantees are preferred over direct government lending.

Lender Benefits

- **Secondary Market** – One of the most attractive features of the Community Facilities Loan Guarantee is that it can be sold to the secondary markets, increasing the lender's return. The lender retains the interest rate margin for servicing which increases the yield on the amount of loan retained. See example below:

Amount of Loan		\$1,000,000
Portion Sold (90%)		\$ 900,000
Lenders Invested Funds		\$ 100,000
Loan Interest Rate		8.00%
Rate Paid on Portion Sold		7.00%
Servicing Fee Retained by Lender		1.00%
Prime Rate		7.00%
Income (1% on \$900,000)	=	\$ 9,000
Income (8% on \$100,000)	=	\$ 8,000
Lender's Return on Investment	=	\$ 17,000

Approximate Yield on Invested Funds = 17.00%

- Reduces lender risk with a guarantee up to 90% of the loan amount.
- Excellent public relations in local communities.
- Stimulates related banking services to customers, such as checking accounts.
- Helps satisfy lender Community Reinvestment Act (CRA) requirements.
- The guaranteed portion does not counting against lending limits.
- The lender can use required deposit reserves to fund the guaranteed portion of loan.
- Variable-rate loans may be used to reduce lender risk from interest fluctuation.
- Prepayment restrictions may be used.

The Application Process

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

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

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

- Step 1:** Lender contacts USDA and is encouraged to file an application.
- Step 2:** Lender submits application to USDA.
- Step 3:** USDA arranges a meeting at the project site.
- Step 4:** The environmental review process is completed
- Step 5:** If the application meets the program guidelines, the request is approved and a "Conditional Commitment for Guarantee" is sent to the lender.
- Step 6:** After receiving the Conditional Commitment, the loan is closed and construction begins.
- Step 7:** Once construction is complete and all of the conditions have been met, the lender submits the documentation on page 8 and requests the Loan Note Guarantee.
- Step 8:** USDA issues the Loan Note Guarantee and the loan is serviced accordingly.

(NOTE: All Loans under \$3 million are approved by the State Office; larger loans must be approved by USDA's National Office in Washington, D.C.)

Contents of a CF Guaranteed Loan Preapplication (optional)

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

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

Contents of a CF Guaranteed Loan Application

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

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

Request for Loan Note Guarantee

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

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

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

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

Forms Reference Guide

Application Forms

- SF 424.2 Application for Federal Assistance

Approval Forms

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

Closing Forms

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

Servicing Forms

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

For all forms, visit our web site at <https://forms.sc.egov.usda.gov/eForms>

Committed to the future of rural communities

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