



Rural Development

March 9, 2017

Richard A. Davis
Acting Administrator

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Telephone: (202) 692-0268

TO: State Directors
Rural Development

ATTN: Community Programs Directors

FROM: Richard A. Davis /s/ *Richard A. Davis*
Acting Administrator
Rural Housing Service

SUBJECT: Determination and Documentation on Availability of Other Credit

The purpose of this unnumbered letter is to provide guidance on the determination and documentation of other credit. Community Facilities direct, guaranteed loan and grant programs have identified weaknesses in the determination and documentation of the availability of other credit.

RD Instructions require that the applicant for Community Facilities direct and guaranteed loans and grants must certify in writing that it is unable to finance the proposed project with its own resources or through commercial credit obtained at reasonable rates and terms. The regulations also state that the Program Director will provide a written analysis of other credit. Agency staff must include its own documentation in the project file indicating that such credit is unavailable. The State Program Director will address this important eligibility requirement in the comments and recommendations section of the Project Summary.

The Agency's determination can be made in several ways:

1) Responses from lenders that have the capacity to provide the type of financing requested, and which document that the lender has analyzed the applicant's financial situation and has determined for pertinent underwriting reasons, that such financing cannot be provided. A letter simply stating that the lender cannot or will not make the requested loan is not sufficient. The documentation should show how the lender's rates will affect the applicant and why the applicant cannot utilize a commercial loan.

EXPIRATION DATE:
February 28, 2018

FILING INSTRUCTIONS:
Community Programs

USDA is an equal opportunity lender, provider and employer.

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form (PDF), found online at http://www.ascr.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at program.intake@usda.gov.

2) A review of the applicant's historical and forecasted financial statements combined with its history of obtaining commercial financing could indicate whether such financing is available. The local lending requirements and conditions must be documented in the file, so that it is clear that commercial credit is not a viable option for this applicant.

In reviewing the utilization for prior years, there were a number of states that had either limited or no guaranteed loan activity for the year. This situation is a matter of concern for several reasons. We are charged with the effective use of the taxpayer's funds appropriated to us to improve the lives of rural Americans. An important part of this charge is increasing the capacity of rural governments and nonprofit organizations to access commercial credit on equal footing with urban communities. The CF guaranteed loan program is an essential tool for assisting rural communities in bridging this gap.

As a community works with Rural Development and lenders to develop a project, it is building capacity and creating a track record which will allow it to undertake additional development without Federal government support.

Prospective applicants are to be advised that the form of financial assistance will be determined based upon a full review and analysis of the applicant's financial capacity. If the cash flow analysis and other financial information indicate that guaranteed financing is feasible, concerted efforts must be made to help the applicant arrange this form of funding. In those cases where guaranteed funding alone is not feasible, it is requested that the local office consider a combination of direct and guaranteed funding be used to assist the applicant in meeting its financial needs. The National Office staff is available to assist Program Directors in any way needed to increase the use of the guaranteed loan funds.

Proper documentation of this requirement will ensure that we are in compliance with RD Instruction 1942-A, 1942-C, 3570-B and 3575-A.

If you have any questions concerning this unnumbered letter, please contact Karla Peiffer, Asset Risk Management Specialist, Community Facilities, karla.peiffer@wdc.usda.gov.