

November 27, 2017

TO: State Directors
Rural Development

ATTN: Business Programs Directors

FROM: Mark Brodziski /s/ *Mark Brodziski*
Acting Administrator
Rural Business-Cooperative Service

SUBJECT: Clarifying Instructions Required Under Intermediary Relending Program

The purpose of this unnumbered letter is to provide additional guidance on various servicing items related to the Intermediary Relending Program (IRP).

This letter addresses three areas of concern that need to be addressed.

Credit Elsewhere

Rural Business-Cooperative Service (RBS) has not consistently checked for credit elsewhere across the country, as required under IRP regulation. RBS is providing formal guidance and a template to reiterate the importance of the credit elsewhere test.

Determination and Documentation of the Availability of Other Credit:

RD Instruction 4274-D requires that the intermediary must provide certification that the ultimate recipients are unable to finance proposed projects through commercial credit or other Federal, State, or local programs at reasonable rates and terms.

Until now, the Agency has accepted self-certifications signed and dated by the intermediary. Agency staff should ensure that documentation addresses commercial lending credit standards such as collateral requirements, debt service requirements, debt-to-income, credit score, and years in business, etc.

EXPIRATION DATE:
November 30, 2018

FILING INSTRUCTIONS:
Community/Business Programs

Intermediaries should be made aware of their responsibility to be knowledgeable of the credit standards of commercial lenders serving its service area, as well as, knowledge of Federal, State, or local programs serving its service area. Intermediaries must include in their ultimate recipients case file documentation that such credit is unavailable by using either a template or other form of documentation.

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

1. A review of the potential ultimate recipients' 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 the potential ultimate recipient. Attached find a template for a sample survey of local bank products that can be used to fulfill the above documentation requirements. These templates can be used by any intermediary to help satisfy credit elsewhere documentation.
2. Responses from lenders that have the capacity to provide the type of financing requested and which document that if a 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. The documentation should be consistent with the surveys of local bank products, if the intermediary conducted a survey.

Cash or Cash Equivalent Requirement

Intermediary Contribution:

RD Instruction 4274.344(c)(3) allows that an intermediary contribute funds, not derived from the Agency, into the IRP revolving fund along with the proceeds of the IRP loan, as a percentage of the Agency loan for authorized purposes in accordance with sections 4274.314 and 4274.319.

These intermediary contributions "must be cash." Debt instruments, such as note receivable or liquid assets, short-term certificates of deposit and other instruments, promissory notes/notes receivables are not acceptable forms of equity and matching funds.

Removing Cash from the Revolving Loan Fund

Maintenance of the IRP Revolving Loan Fund:

RD Instruction 4274.332(b) outlines requirements for maintaining a revolving loan fund account. Any cash in the IRP revolving loan fund from any source that is not needed for debt service, approved administrative costs, or reasonable reserves, (i.e., bad debt) must be available for additional loans to ultimate recipients. Cash shall not be removed from a revolving loan fund account for any purpose other than those stated above, without the prior approval of the Agency with concurrence from the National Office.

Any requests must be made in writing, to the Agency, stating the purpose for the removal of any cash, and how it would serve in meeting the intent of the program. If the states support the request, the proposal must be submitted to the National Office for approval. Responses will be made in writing.

Thank you for your continued support of IRP. Proper documentation and the adherence to Agency policies ensure that we are in compliance with RD Instructions 4274-D and 1951-R.

If you have any questions concerning this unnumbered letter, please contact the Specialty Programs Division, Program Management Branch (202) 720-1400.

Attachment

Survey of Local Bank Products for Small Business Ultimate Recipient Loans*:

Eligibility	Bank #1	Bank #2
	Bank Name: _____	Bank Name: _____
Minimum Credit Score Requirement	680	Liquid credit score model is used (person credit and business credit – DNB and Industry analysis)

Reason(s) for “No Credit Elsewhere”

*Please note this is only a template. It is designed to assist the Agency in determining if various banking institutions offer products at better rates and terms of that offered by USDA. If there are only minimal banking options in a targeted area (ie., one bank) then the remaining bank column(s) do not have to be met. Please make note, if applicable, in the Reason(s) for “No Credit Elsewhere” box above and/or remove column(s).

Survey of Local Bank Products for Small Business Ultimate Recipient Loans*:

Eligibility	Bank #1	Bank #2
	Bank Name: _____	Bank Name: _____
Minimum # Of Years In Business	Min 2 years with tax returns	Min 2 years with tax returns

Reason(s) for “No Credit Elsewhere”

*Please note this is only a template. It is designed to assist the Agency in determining if various banking institutions offer products at better rates and terms of that offered by USDA. If there are only minimal banking options in a targeted area (ie., one bank) then the remaining bank column(s) do not have to be met. Please make note, if applicable, in the Reason(s) for “No Credit Elsewhere” box above and/or remove column(s).

Survey of Local Bank Products for Small Business Ultimate Recipient Loans*:

Eligibility	Bank #1	Bank #2
	Bank Name: _____	Bank Name: _____
Debt To Income Ratio	Min 40%	Business and global cash-flow of at least 1.25

Reason(s) for “No Credit Elsewhere”

*Please note this is only a template. It is designed to assist the Agency in determining if various banking institutions offer products at better rates and terms of that offered by USDA. If there are only minimal banking options in a targeted area (ie., one bank) then the remaining bank column(s) do not have to be met. Please make note, if applicable, in the Reason(s) for “No Credit Elsewhere” box above and/or remove column(s).

Survey of Local Bank Products for Small Business Ultimate Recipient Loans*:

Eligibility	Bank #1	Bank #2
	Bank Name: _____	Bank Name: _____
Collateral Guidelines:	Real Estate – 80% LTV or Equipment – 50-90% LTV 1 st Lien Requirement	Real Estate – 80% LTV or Equipment – 50-90% LTV First Lien Requirement

Reason(s) for “No Credit Elsewhere”

*Please note this is only a template. It is designed to assist the Agency in determining if various banking institutions offer products at better rates and terms of that offered by USDA. If there are only minimal banking options in a targeted area (ie., one bank) then the remaining bank column(s) do not have to be met. Please make note, if applicable, in the Reason(s) for “No Credit Elsewhere” box above and/or remove column(s).