



May 11, 2021

Rural Development

Chad Parker
Acting Administrator

Rural Housing Service
1400 Independence Ave, SW
Room 5011-S
Washington, D.C. 20250

TO: State Directors
Rural Development

ATTN: Community Programs Directors

FROM: Chad Parker /s/ **Chad Parker**
Acting Administrator
Rural Housing Service

SUBJECT: Requirements of submitting a “Five/Five” Review for Community Facility Direct Loan Applications

INTRODUCTION

The purpose of this unnumbered letter is to provide guidance on when and what to submit for meeting the requirements of 7 CFR §1942.17 (g) (2) (iii) (A) (6) and (9) for public bodies and 7 CFR §1942.17 (g) (3) (iii) (A) (2) and (5) for Other-than-public bodies: “National Office concurrence is required when the applicant has been in existence for less than five years or has not operated on a financially successful basis for five years immediately prior to loan application”.

Per 1901-A, Exhibit B, pg. 3 - #4 – If the loan is within the State Office’s approval authority, then the National Office delegates 5/5 concurrence to the RD State Director.

BACKGROUND

7 CFR §1942.17 (g) refers to Security. *“Loans will be secured by the best security position practicable in a manner which will adequately protect the interest of Rural Development during the repayment period of the loan”.*

Request for “Five/Five” (5/5) reviews (concurrence/non-concurrence) have increased significantly. Direction is hereby provided within this Unnumbered Letter (UL). No prior UL has been issued on this subject.

TIMING

The 5/5 request shall be submitted during the preapplication stage **prior** to issuance of Form AD-622 “Notice of Preapplication Review Action.” All basic eligibility

EXPIRATION DATE:
May 31, 2022

FILING INSTRUCTIONS:
Community/Business
Programs

requirements shall have already been met when submitting the 5/5 request, including the “Other Credit” requirement - in accordance with 7 CFR §1942.2 (a) and (a)(2), 1942.17 (b)(3).

In order to provide timely reviews, the minimum following information will be required:

1. Cover letter request memo from the Program Director to the Director of the Direct Loan/Grant Division. Please see attached with format. Clearly describe what the issues were for the unsuccessful operating history and what prevents the events/issues to reoccur.
2. Complete CPAP Historical Financial section (if not a start-up) and include your discussion within the 5/5 request memo.

GENERAL GUIDANCE

1. Unsuccessful Operating History is considered negative net operating history, negative EBIDA, and/or <1.0 DSCR. Three or more years of negative operating history is a red flag and typically reflects an unfavorable trend/pattern. Multiple years of unsuccessful operating history immediately preceding application should be analyzed thoroughly and considered seriously.
2. Start Up Projects:
 - When a prospective applicant inquires regarding a potential startup project consult with your CF Asset Risk Management Specialist to discuss.
 - Refer to the UL “Evaluating the Feasibility and Eligibility of CF Projects”. Specifically review items #1 - #8 and the appropriate Attachment if applicable.
 - Consideration of phasing the project should be critically considered if available.
 - Significant community support must be evident.

CONCLUSION

Submit 5-5 Review requests via e-mail to the Director, Direct Loan/Grant Division, Martha Torrez and copy your respective CF Asset Risk Management Specialist, the following:

1. Completed 5/5 Request Memo – See attached

2. Complete both Historical Income Information and Assets and Liabilities tabs in the Historical Financial section in CPAP. All historical financials will be spread by line item to match the audited or fiscal year end financials to provide a true year-to-year comparison. All revenues, expenses, assets and liabilities shall be appropriately categorized. The Debt Service field at the bottom of the Historical Income Information tab is required to be completed, if applicable. All debt service needs to be input which shall include principal and interest on all short-term and long-term debt(s), line(s) of credit, capital lease obligation(s), etc. If you have questions related to this section, please contact your respective CF Asset Risk Management Specialist.
3. Financial information/eligibility documentation and other appropriate supporting documentation should be uploaded into CPAP. This includes five years of audited financials, year to date financials, all other relevant information in support of your recommendation.

Attachment – 5-5 Review Request

Please put on your own state's letterhead

SENT VIA EMAIL ONLY

DATE:

TO: Martha Torrez
Director, Direct Loan/Grant Division
Community Facilities Programs
Rural Housing Service

FROM: Program Director
State

SUBJECT: 5/5 Review Request
Name of Applicant -
Loan request amount - \$
Proposed Project:
*Cite the specific procedural reference applicable: §1942.17 (g)(2)(iii)(A)(6) and (9) for Public Bodies or §1942.17(g)(3)(iii)(A)(2) and (5) for Other than public bodies.

BACKGROUND

Describe applicant – nonprofit/public body, provide OGC's review memo and state any issues identified, what they do, how long they've been operating, etc. If a nonprofit, provide senior management information and Board of Directors list/terms. You may also upload this into CPAP.

Brief description of project.

FINANCIAL REVIEW

Provide a meaningful financial review and analysis of the historical information. Specifically address the following:

1. The unsuccessful operating history year/s and what/why they were unsuccessful. Explain relevant information the applicant has provided both positive and negative. Explain the circumstances and why it is unlikely to reoccur.
2. Is there adequate and dependable revenue for operating expenses, debt service and required reserves?

3. If the application is a start-up, how will operating expenses be met for the first three years and what dependable revenue sources will there be? Specifically address proposed security and risk mitigations, meaningful applicant contribution and partnerships/leverage.
4. CPAP will provide the financial spread and ratios (DSCR, EBIDA (cash flow), export in to excel to easily calculate liquidity and other relevant ratios, etc.) necessary to complete your examination and assessment.
5. Is the request following best practices? In accordance with the UL “Best Practices for Evaluating the Feasibility and Eligibility of Community Facilities Projects” dated March ? 2021?

ADDITIONAL INFORMATION

Address the following:

1. Detailed explanation of proposed security.
2. Is there meaningful applicant contribution? Partnership and leverage?
3. Is there demonstration and evidence of significant community support?
4. If a start-up does this meet the UL “Evaluating the Feasibility and Eligibility of CF Projects”, and how so? What risk mitigation is proposed?
5. Is the Board representative of the community and community based?
6. Describe the experience of the Board and Senior Management demonstrating strong leadership.

RECOMMENDATION

Please clearly state your recommendation for concurrence/non-concurrence. Explain your reasoning and the basis for your assumptions.