

RD AN No. 3960 (4287-B)  
March 29, 2004

SUBJECT: Business and Industry Guaranteed Loan Program  
Submission of Annual Financial Statements and Lender Visits

TO: State Directors, Rural Development

ATTN: Business Programs Directors

**PURPOSE/INTENDED OUTCOME:**

During a recent audit of Business and Industry (B&I) Guaranteed Loans, we learned that the Agency is not receiving borrower financial statements timely nor conducting the required annual visits timely. This Administrative Notice (AN) is intended to provide clarification and emphasize the importance of the requirement that all borrowers must submit annual financial statements to the lender within 120 days of the end of their fiscal year. Additionally, it is intended to reiterate the requirement for annual Agency visits with the lender. The regulations and status of the borrower dictate when a borrower visit is required.

**COMPARISON WITH PREVIOUS AN:**

This AN replaces RD AN No. 3853, dated April 19, 2003, which expires on April 30, 2004.

**IMPLEMENTATION RESPONSIBILITIES:**

RD Instruction 4287-B, section 4287.107(d), Financial Reports, states: "The lender must obtain and forward to the Agency the financial statements required by the Loan Agreement. The lender must submit annual financial statements to the Agency within 120 days of the end of the borrower's fiscal year. The lender must analyze the financial

EXPIRATION DATE:  
April 30, 2005

FILING INSTRUCTIONS:  
Preceding RD Instruction 4287-B

statements and provide the Agency with a written summary of its analysis and conclusions, including trends, strengths, weaknesses, extraordinary transactions, and other indications of the financial condition of the borrower. Spreadsheets of the new financial statements must be included.”

The Agency reiterates that the lenders **must** comply with this provision. If financial statements are not received by the State Office within the required 120 days, the State Office will send a notification to the lender of this deficiency.

Further, the Agency directs that the lender is to either submit any overdue borrower financial reports within 60 days of the date of the notification or provide sufficient evidence to support that they have exhausted all full faith efforts in attempting to obtain financial statements from the borrower. Lenders who do not comply will be notified that they may be negligent in servicing the borrower’s loan.

#### Lender Visits

RD Instruction 4287-B, section 4287.107(c), Agency and lender conference, states: “At the Agency’s request, the lender will meet with the Agency to ascertain how the guaranteed loan is being serviced and that the conditions and covenants of the Loan Agreement are being enforced.”

RD Instruction 4287-B, section 4287.107(c), states:

1. “Prepare for the visit by reviewing the previous field visit reports.
2. Coordinate the visit with the lender.
3. Before the visit, discuss with the lender the borrower’s financial reporting and review the lender’s analysis of the reports.
4. Check the condition of the business premises and the collateral and observe how the borrower is maintaining and utilizing the equipment.
5. Check for potential hazardous contamination.
6. Determine the economic impact of the B&I program.
7. Document the findings in written correspondence with the lender.”

The Agency reiterates that Rural Development State Offices **must** comply with this provision and monitor compliance at least annually. At a minimum, the State Office will remind the lender of its servicing responsibilities under the Lender's Agreement, review the lender's latest financial analysis, check the loan classification, and review application of the loan payments. Annual lender visits are to be documented on the "Rural Development Application Processing Tracking System" (RDAPTS) and in narrative form in the official loan docket. Use RDAPTS as a tickler system to remind you of when lender visits are due. In addition, borrower visits for non-delinquent borrowers may be conducted every 3 years using Field Visit Form 4279-15. However, the borrower and lender visits should be conducted more frequently, if warranted.

Any questions or comments should be directed to the B&I Division Servicing Branch, (202) 690-4103.

*(Signed by John Rosso)*

JOHN ROSSO  
Administrator  
Rural Business-Cooperative Service