

RD AN. No. 3900 (1951-F)  
October 14, 2003

TO: State Directors  
Rural Development

ATTN: Community Programs Managers

FROM: Arthur A. Garcia      *(Signed by Arthur A. Garcia)*  
Administrator  
Rural Housing Service

SUBJECT: Graduation of Community Facilities and Recreation Association Loans

**PURPOSE/INTENDED OUTCOME:**

This Administrative Notice (AN) is being issued to remind State and area office staffs of the need to follow RD Instruction 1951-F very carefully and to fully document all actions regarding the review and refinancing of Community Facilities (CF) and Recreation Association (RA) loans.

**COMPARISON WITH PREVIOUS AN:**

This AN replaces AN No. 3726 (1951-F) dated March 28, 2002, which expired March 31, 2003.

**IMPLEMENTATION RESPONSIBILITIES:**

1. To adequately evaluate each borrower for graduation, the area office must have detailed and current information regarding the interest of lenders in making loans within the region and State. RD Instruction 1942-A, section 1942.2(a)(2)(i), and RD Instruction 1951-F, section 1951.254(a)(2), require the State Director to maintain liaison with lenders in the State and develop criteria for determining which loans should be referred to lenders. The State Office should develop and maintain a list of interested lenders along with their lending criteria. This information should be provided to the area offices to use during graduation reviews. All contacts should be documented, and copies of the lender

EXPIRATION DATE:  
October 31, 2004

FILING INSTRUCTIONS:  
RD Instruction 1951-F

criteria developed by the State Office should be forwarded to each area office. If Attachment 1 is not used, documentation should contain similar information. The worksheet should be completed by servicing staff based on the results of lender interviews. Area offices that contact local lenders should provide copies of completed lender contact worksheets to the State Office.

2. A graduation review report showing the list of borrowers for the initial screening can be obtained from the RHS link on the GLS website <https://gls.sc.egov.usda.gov/gls/default.asp>. After login, select the RHS link, then select C&BP Reports to locate the appropriate report. This list may have inadvertently included some guaranteed and non-program loans. Eliminate these types of loans from the list.
3. The initial screening process is intended to eliminate from further review those borrowers who clearly cannot graduate. RD Instruction 1951-F, section 1951.263(b), lists circumstances where a borrower can be eliminated from further review. Information to support eliminating borrowers that do not meet minimum lending criteria should be documented in the casefile; otherwise a thorough review, including a careful review of current financial statements, must be conducted. If a borrower is eliminated from further review because they are unable to meet established minimum lending criteria, specific circumstances of the borrower and specific lending criteria that cannot be met must be documented as required by RD Instruction 1951-F, section 1951.263(b)(5). If Attachment 2 is not used, documentation should contain similar information.
4. Thorough reviews may be accomplished at the same time as the initial screening if current financial information is available in the file. If current financial information is not in the file, such information should immediately be requested from the borrower. Acceptable reviews cannot be completed without current financial information. When conducting thorough reviews, careful attention should be given to borrower investments and liquid assets, such as cash certificates of deposits, unrestricted accounts, and any restricted accounts controlled by the governing board. Funds earmarked for future facility improvements would not ordinarily be excluded from the review process unless the borrower is actively developing construction plans and seeking financing for the improvements. If Attachment 3 is not used, documentation should contain similar information.
5. Servicing officials should consider using trial referrals for those borrowers who may be able to graduate as provided in RD Instruction 1951-F, section 1951.263(d). If the trial referral is handled verbally, the results should be thoroughly documented.
6. All Community Programs servicing officials are reminded that CF and RA loans are to be reviewed for graduation with the borrower making a reasonable effort in applying to

other lending institutions for a loan at reasonable rates and terms as required by RD Instruction 1951-F, section 1951.253. Applications received after a borrower has been requested to graduate will be handled in accordance with RD Instruction 1951-F, section 1951.265(a).

This AN serves as a reminder of the importance of the graduation process. If you have questions regarding this AN, please contact Yoonie MacDonald, Deputy Director, Direct Loan and Grant Division, Community Programs, (202) 720-1501, or fax (202) 690-0471.

Attachments

**Community Programs  
Lender Contact Worksheet**  
State: \_\_\_\_\_

Name of Lender:

\_\_\_\_\_

Address:

\_\_\_\_\_

Telephone:

\_\_\_\_\_

Person Contacted:

\_\_\_\_\_

Title:

\_\_\_\_\_

Date of Contact:

\_\_\_\_\_

Type of Lender:

 Bank Savings & Loan Investment Bank Bond Dealer Insurance Company Other (specify)

Areas of Interest:

YesNoYesNo

New Loans

\_\_\_\_\_

\_\_\_\_\_

Water Systems

\_\_\_\_\_

\_\_\_\_\_

Refinancing

\_\_\_\_\_

\_\_\_\_\_

Waste Disposal

\_\_\_\_\_

\_\_\_\_\_

Joint Financing

\_\_\_\_\_

\_\_\_\_\_

Hospitals

\_\_\_\_\_

\_\_\_\_\_

Interim Financing

\_\_\_\_\_

\_\_\_\_\_

Nursing Homes

\_\_\_\_\_

\_\_\_\_\_

Guaranteed Loans

\_\_\_\_\_

\_\_\_\_\_

Clinics

\_\_\_\_\_

\_\_\_\_\_

Public Bodies

\_\_\_\_\_

\_\_\_\_\_

Fire &amp; Rescue

\_\_\_\_\_

\_\_\_\_\_

Nonprofit Corporations

\_\_\_\_\_

\_\_\_\_\_

Municipal Bldg.

\_\_\_\_\_

\_\_\_\_\_

General Obligations

\_\_\_\_\_

\_\_\_\_\_

Schools

\_\_\_\_\_

\_\_\_\_\_

Revenue Bonds

\_\_\_\_\_

\_\_\_\_\_

Natural Gas

\_\_\_\_\_

\_\_\_\_\_

Special Assessment Bonds

\_\_\_\_\_

\_\_\_\_\_

Roads, Streets,

\_\_\_\_\_

\_\_\_\_\_

Note and Mortgage

\_\_\_\_\_

\_\_\_\_\_

Bridges

\_\_\_\_\_

\_\_\_\_\_

Other

\_\_\_\_\_

\_\_\_\_\_

Comments:

\_\_\_\_\_

\_\_\_\_\_

Geographic Area of Interest:

Estimated Amount Available for Lending: \$

\_\_\_\_\_

	<b>Loan Size</b>	
	<u>Minimum</u>	<u>Maximum</u>
Public Bodies	_____	_____
Nonprofit Corp.	_____	_____

Estimated Current Rates and Terms:

	<b>Interest Rate</b>		
	<u>Rated*</u>	<u>Unrated</u>	<u>Length of Loan</u>
Public Bodies			
Gen. Obligation Bonds	_____	_____	_____
Revenue Bonds	_____	_____	_____
Assessment Bonds	_____	_____	_____
Nonprofit Corp.	_____	_____	_____
Note and Mortgage	_____	_____	_____

Comments: \_\_\_\_\_

Is lender interested in trial referral of borrowers who may be able to refinance?

Yes \_\_\_ No \_\_\_

Lender's Reserve Requirements:

Lender's Preferred Ratio Range:

- Debt Service Coverage
- Debt Per Capita (GO Bonds)
- Debt to Equity
- Current Ratio
- Other

Comments: \_\_\_\_\_

\*Rated Standard and Poor's BBB or Moody's BAA unless otherwise stated.

**COMMUNITY PROGRAMS  
INITIAL REVIEW WORKSHEET**

Date of Review \_\_\_\_\_  
Name of Borrower \_\_\_\_\_

Type of Facility \_\_\_\_\_

<b>RATIOS:</b>	1. Current Assets _____ Current Ratio _____	Current Liabilities _____
	2. Long-Term Liabilities _____ Debt-to-Equity Ratio _____	Total Equity _____
	3. Net Income _____ Depreciation _____ Debt Service Charge _____	Interest Expense _____ Principal Payment _____

**PAYMENT ABILITY:**

	ACTUAL for _____	ACTUAL for _____
Year's Total Revenues	\$ _____	\$ _____
Year's Total Expenses	-\$ _____	-\$ _____
Total Funds Needed to Refinance Debts	-\$ _____	-\$ _____
Depreciation	+\$ _____	+\$ _____
Principal/Interest Expense	+\$ _____	+\$ _____
Funds Available to Pay Debt Service	+\$ _____	+\$ _____

1. Is the borrower developing architectural plans or actively seeking funding for a pending project that would impact the borrower's ability to refinance? Yes \_\_\_\_\_ No \_\_\_\_\_
2. Does the borrower's audit report or financial statement contain any notes regarding financial problems or risks? Yes \_\_\_\_\_ No \_\_\_\_\_
3. Is the loan's outstanding balance too small to interest private sector financing?  
Yes \_\_\_\_\_ No \_\_\_\_\_

**Recommendations/Comments:** (Can be documented using above-mentioned financial information.)

**Reviewer's Signature** \_\_\_\_\_

**Date** \_\_\_\_\_

**COMMUNITY PROGRAMS  
THOROUGH REVIEW WORKSHEET**

1. a. Date of Review \_\_\_\_\_
- b. Type of Facility
- c. Name of Borrower

**2. INFORMATION FROM BALANCE SHEET DATED**

ASSETS		LIABILITIES
a. Current	_____	b. Current
c. Long-term	_____	d. Long-term
Total Assets	_____	Total Debt
e. Net Worth	_____	

**3. LIABILITIES TO BE PAID IN MORE THAN 12 MONTHS**

Creditor/ Loan No.	Unpaid Balance	Annual Debt Service	Rate, Years Left, & Security for Loan
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
_____	\$ _____	\$ _____	_____
<b>TOTAL</b>	<b>\$ _____</b>	<b>\$ _____</b>	

**4. INCOME AND EXPENSE INFORMATION FROM STATEMENT**

**DATED** \_\_\_\_\_ (All information for calendar or fiscal year (circle).)

	ACTUAL for _____	BUDGET for _____	PER UNIT
a. Year's Gross Revenue	\$ _____	\$ _____	_____
b. Year's O&M Expense	-\$ _____	-\$ _____	_____
c. Net from Operations	\$ _____	\$ _____	_____
d. Agency Debt Service	\$ _____	\$ _____	_____
e. Other Debt Service	-\$ _____	-\$ _____	_____
f. Capital Expenditures from Operating Income	-\$ _____	-\$ _____	_____
g. Reserve Account Deposit	-\$ _____	-\$ _____	_____
h. Balance Remaining	\$ _____	\$ _____	_____

**5. PROJECT INFORMATION**

- a. Unit of service \_\_\_\_\_
- b. Number of units \_\_\_\_\_
- c. Median household income of service area: \$ \_\_\_\_\_
- d. Median non-metropolitan household income for State \$ \_\_\_\_\_
- e. Annual unit cost for comparable facilities in similar communities within the State that have other financing:

Community	Annual Unit Cost
_____	_____
_____	_____
_____	_____

**6. Working Capital (2a minus 2b)** \_\_\_\_\_

- Deduct:
- a. Restricted accounts - \_\_\_\_\_
- b. Reasonable O&M  
(\_\_\_\_ days O&M expense) - \_\_\_\_\_



- c. Debt Service (\_\_\_ days debt service) - \_\_\_\_\_
- d. Capital Expenditures (Essential) - \_\_\_\_\_
- e. Reserve Funds (cover short-term fluctuations) - \_\_\_\_\_
- f. Remaining Working Capital \_\_\_\_\_

**7. Funds Needed to Refinance**

- a. Total funds needed to refinance debts and to obtain lien position required by investment lender: \$ \_\_\_\_\_
- b. Add cost to obtain credit to refinance +\$ \_\_\_\_\_
- c. Add credit for new capital expenditures +\$ \_\_\_\_\_
- d. Deduct adjusted working capital (6f) -\$ \_\_\_\_\_
- e. Credit required for refinancing \$ \_\_\_\_\_

f. Estimated payments for:

Type Credit	Years	Rate	Debt Service
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

g. Total Payments \_\_\_\_\_

**8. Payment Ability**

- a. Net from operations (4c - 4g) \$ \_\_\_\_\_
- b. Add other dependable revenue +\$ \_\_\_\_\_
- c. Deduct capital expenditures -\$ \_\_\_\_\_
- d. Deduct debt service (not refinanced) -\$ \_\_\_\_\_
- e. Available to pay debt service (refinanced) \$ \_\_\_\_\_

**9. Ratios and Other Financial Factors**

Current ratio \_\_\_\_\_

Debt/asset ratio \_\_\_\_\_

Debt service coverage \_\_\_\_\_

Debt per capita (GO bonds) \_\_\_\_\_

**10. Comments**

**11. Recommendations**

\_\_\_\_\_  
**Reviewer's Signature**

\_\_\_\_\_  
**Date**

## Supplemental Instructions for Thorough Review Worksheet

1. Complete a separate worksheet for each facility.
2. All debts with a final due date exceeding 12 months should be listed in Section 3. If the current portion of these debts is listed separately on the borrower's balance sheet, you should add the current portion to the debt and adjust the figure for current liabilities.
3. Obtain figures for the most recent fiscal year and a budget for the current fiscal year. Divide the annual budget figure by the number of service units provided by the facility. Do not include capital purchases that should be paid with borrowed or reserve account funds.
4. Ordinarily, unit of service for utility systems will be the number of equivalent residential users. For non-utility facilities, the unit may be the predominant unit of service, or for governmental services, the number of households in the service area.

Typical non-utility units are:

- Hospital, nursing home, residential care facilities – number of beds.
  - Schools - number of students.
  - Outpatient health care - number of visits.
  - Fire, rescue, library, government - number of households in service area.
5. Working capital should include only current, available assets. Deduct any asset set-aside in a charge-off account or any considered uncollectible. Ordinarily, borrowers expect to pay usual operating and maintenance and debt service from current assets and future net revenue.

The only expenditures to be included in this category are maintenance of the facility, i.e., repairs to roof, plumbing, and heating/air conditioning.

6. In reaching a conclusion on the ability of a borrower to secure financing, reorganization of the entire debt structure must be considered.