

RD AN No. 3963 (4287-B)  
April 6, 2004

SUBJECT: Business and Industry Guaranteed Loan Program  
Transfer and Assumption

TO: State Directors, Rural Development

ATTN: Business Programs Directors

**PURPOSE/INTENDED OUTCOME:**

To provide guidance to State Offices on transfers and assumptions.

**COMPARISON WITH PREVIOUS AN:**

There is no previous AN on this subject.

**IMPLEMENTATION RESPONSIBILITIES:**

RD Instruction 4287-B, section 4287.134, provides guidance regarding transfers and assumptions. While a transfer and assumption is normally a loan servicing action, it should be processed in the same manner as a new loan. When processing a transfer and assumption, you must get a new application, personal guarantor financial statements, business plan with a proforma balance sheet and 2 years projected balance sheet and income statement, lender's financial analysis, Moody's financial analysis, etc. The transferee must meet all of the eligibility conditions set forth in RD Instruction 4279-B, section 4279.108. In addition, you must ensure that the transfer and assumption to a new entity does not exceed the maximum terms that the Agency can extend as set forth in RD Instruction 4279-B, section 4279.126(a). For example, as it relates to machinery and equipment, the maximum term for which the Agency can extend a guarantee is 15 years or the useful life of the machinery and equipment.

EXPIRATION DATE:  
March 31, 2005

FILING INSTRUCTIONS:  
Preceding RD Instruction 4287-B

The transferee must meet the minimum tangible balance sheet equity by using financial statements prepared in accordance with Generally Accepted Accounting Principles, as set forth in RD Instruction 4279-B, section 4279.131(d). Increased equity should be required to mitigate any additional risk, including, but not limited to, such factors as specialized machinery and equipment or unproven management, or when Risk Management Associates industry averages suggest that additional equity is warranted for a successful operation.

All transfers and assumptions will be approved in writing by the Agency. A transfer and assumption can be the total indebtedness to another eligible borrower at the same rates and terms or different rates and terms, as well as a transfer for less than the total indebtedness at the same rates and terms or different rates and terms.

In any case, the transferor, including any guarantor(s), may be released from liability by the lender with the Agency's prior written concurrence only when the value of the collateral being transferred is at least equal to the amount of the loan or part of the collateral being assumed. We should obtain new guarantor(s) from the transferee that assumes the guaranteed loan indebtedness.

If you have any questions, please contact the Business and Industry Division Servicing Branch at (202) 690-4103.

*(Signed by John Rosso)*

JOHN ROSSO  
Administrator  
Rural Business-Cooperative Service