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Department of
Agriculture

Rural
Development

October 2004



Household Water Well System Program

2004 Grant Application Guide



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Section 1: The Household Water Well System Grant Program

1.1 Introduction

Drinking water systems are basic and vital to both health and economic development. With dependable water facilities, rural communities can attract families and businesses that will invest in the community and improve the quality of life for all residents. Without dependable water facilities, the communities cannot sustain economic development.

The Rural Utilities Service (RUS) supports the sound development of rural communities and the growth of our economy without endangering the environment. RUS provides financial and technical assistance to help communities bring safe drinking water and sanitary, environmentally sound waste disposal facilities to rural Americans in greatest need.

A central water system may not be the only or best solution to drinking water problems in some instances. Distance or physical barriers make public central water systems expensive in remote areas. A significant number of geographically isolated households without water service might require individual wells rather than connections to new or existing community systems. The goal of the RUS Water and Environmental Programs (WEP) is not only to make funds available to those communities most in need of potable water but also to ensure that facilities used to deliver drinking water are safe and affordable. There is a role for private wells in reaching this goal.

The Household Water Well System (HWWS) Grant Program has been established to assist individuals who own or will own household water wells. Qualified private non-profit organizations will receive HWWS grant funds to establish a lending program for individual household water wells. As grant recipients, the non-profit organizations will set up a revolving loan fund to provide water well loans to individuals. The borrowers may use the loans to construct, refurbish, and service individually-owned household well systems.

In this guide, you will find information to help you:

- Assess your eligibility for RUS grant assistance
- Understand how and when to apply
- Create a successful application

1.2 Authorization

The 2002 Farm Bill (the Farm Security and Rural Investment Act of 2002) established the HWWS Grant Program. The authorizing statute may be found in the United States Code (7 U.S.C. 1926e). The Code of Federal Regulations sets forth the HWWS regulation at 7 CFR Part 1776. Please read the regulation in conjunction with these guidelines.

Should any differences result in the interpretation of these guidelines and 7 CFR Part 1776, the regulation will take precedence over information contained in this guide.

1.3 Available funding for FY 2004

For Fiscal Year 2004, \$1,000,000 is available for the grant program.

1.4 HWWS Program Contacts

The Water and Environmental Programs (WEP) staff will administer the HWWS Program. We encourage you to contact the WEP staff early in the application process with any questions or ideas concerning your proposal. The staff will provide advice on draft proposals before the application deadline or answer your questions about the application process and program requirements.

Telephone: 202-720-9589

Fax: 202-690-0649.

E-mail: water@usda.gov

1.5 HWWS Resources on the Web

Visit our Web site at <http://www.usda.gov/rus/water/>.

Section 2: General Considerations for a HWWS Grant

2.1 Eligible Organizations

An organization is eligible to receive a HWWS grant if it:

- a. Is a private, non-profit organization that has tax-exempt status from the United States Internal Revenue Service (IRS);
- b. Is legally established and located within one of the following:
 - a state within the United States
 - the District of Columbia
 - the Commonwealth of Puerto Rico
 - a United States territory
- c. Has the legal capacity and authority to carry out the grant purpose;
- d. Has sufficient expertise and experience in lending activities;
- e. Has sufficient expertise and experience in promoting the safe and productive use of individually-owned household water well systems and ground water;
- f. Has no delinquent debt to the Federal Government or no outstanding judgments to repay a Federal debt;
- g. Demonstrates that it possesses the financial, technical, and managerial capability to comply with Federal and State laws and requirements.

2.2 Eligible Grant Purposes

The following activities are authorized under the HWWS statute:

- a. Grant funds must be used to establish and maintain a revolving loan fund to provide loans to eligible individuals to construct, refurbish, and service individually-owned household water well systems. Eligible individuals must own or will own the household water well systems.
- b. Grant funds may be used to pay administrative expenses associated with providing HWWS loans.

2.3 Ineligible Grant Purposes

Grant funds may not be used to pay any of the following:

- a. Administrative expenses that exceed 10 percent of the HWWS loans made during the grant period.
- b. Administrative expenses incurred before RUS executes a grant agreement with the recipient.
- c. Delinquent debt owed to the Federal Government.

2.4 Security Requirements

A grant agreement will be executed between the recipient and RUS.

2.5 Loan Servicing

Subject to 7 CFR Part 1776, subpart 1776.16, loans will be serviced through the USDA Centralized Servicing Center, subject to approval by USDA. A loan servicing agreement will be executed between the recipient and the USDA Rural Development Centralized Servicing Center. A sample of the agreement is attached to this document as Appendix A.

Section 3: Application Submission Process

3.1 Two Ways of Filing Applications

You may file an application in either paper or electronic format. Send or deliver paper applications by the U.S. Postal Service (USPS) or courier delivery services to the RUS receipt point. File an application electronically through Grants.gov, the official Federal Government Web site at <http://www.grants.gov>. RUS will not accept applications by fax or e-mail.

3.2 DUNS Number Requirement

Whether you file a paper or an electronic application, you will need a Dun and Bradstreet (D&B) Data Universal Numbering System (DUNS) number. You must provide your DUNS number on the SF-424, "Application for Federal Assistance."

To verify that your organization has a DUNS number or to receive one at no cost, call the dedicated toll-free request line at 1-866-705-5711 or access the Web site <http://www.dunandbradstreet.com>. You will need the following pieces of information when requesting a DUNS number:

- Legal Name
- Headquarters name and address of the organization
- Doing business as (dba) or other name by which the organization is commonly recognized.
- Physical address
- Mailing address (if separate from headquarters and/or physical address)
- Telephone number
- Contact name and title
- Number of employees at the physical location

3.4 Paper Applications

Mail or ensure delivery of an original paper application (no stamped, photocopied, or initialed signatures) and two copies by the deadline date to the following address:

Assistant Administrator
Water and Environmental Programs
Rural Utilities Service
1400 Independence Avenue, S.W.
STOP 1548, Room 5145 South
Washington, DC 20250-1548

The application and any materials sent with it become Federal records by law and cannot be returned to you.

3.5 Electronic Applications

You must file an electronic application at the web site: www.grants.gov.

You must be registered with Grants.gov before you can submit a grant application. If you have not used Grants.gov before, you will need to register with the Central Contractor Registry (CCR) and the Credential Provider. You will need a DUNS number to access or register at any of the services. The registration processes may take several business days to complete. Follow the instructions at Grants.gov for registering and submitting an electronic application. RUS may request original signatures on electronically submitted documents later.

The CCR registers your organization, housing your organizational information and allowing Grants.gov to use it to verify your identity. You may register for the CCR by calling the CCR Assistance Center at 1-888-227-2423 or you may register online at: <http://www.ccr.gov>.

The Credential Provider gives you or your representative a username and password, as part of the Federal Government's e-Authentication to ensure a secure transaction. You will need the username and password when you register with Grants.gov or use Grants.gov to submit your application. You must register with the Central Provider through Grants.gov: <https://apply.grants.gov/OrcRegister>.

3.6 Deadlines for Grant Applications

For the 2004 grant cycle, the deadline for the HWWS program is December 6, 2004.

All applications must be postmarked or time-stamped electronically by the filing deadline to be considered for the grant period.

An application will be considered on time if it is received by the deadline date or mailed on or before the deadline date. If the application is filed electronically, an electronic date and time stamp on or before the receipt date will be considered on time. Paper applications must show proof of mailing or shipping consisting of one of the following:

- A legibly dated U.S. Postal Service (USPS) postmark;
- A legible mail receipt with the date of mailing stamped by the USPS; or
- A dated shipping label, invoice, or receipt from a commercial carrier.

Note: Packages arriving at USDA via the USPS are irradiated, which can damage the contents. RUS encourages you to consider the impact of this procedure in selecting your application delivery method. Also, if there is a disruption in mail delivery service, we strongly encourage you to submit applications via express mail or commercial delivery to our office.

If a receipt date falls on a weekend, it will be extended to the following Monday. If the date falls on a Federal holiday, it will be extended to the next business day.

Section 4: Requirements for a Completed Grant

4.1 Preparing the Application

Completed Application

1. Standard application forms
2. A proposal
3. A work plan
4. A budget and budget justification
5. Evidence of legal existence and legal authority
6. A list of directors and officers
7. Other specified information

To be considered for support, you must be an eligible entity and must submit a complete application by the deadline date. You should consult the cost principles and general administrative requirements for grants pertaining to their organizational type in order to prepare the budget and complete other parts of the application. You also must demonstrate compliance (or intent to comply),

through certification or other means, with a number of public policy requirements.

4.2 Required Forms

Applicants must complete and submit the following forms to apply for a HWWS grant:

- Standard Form 424, “Application for Federal Assistance”
- Standard Form 424A, “Budget Information—Non-Construction Programs”
- Standard Form 424B, “Assurances—Non-Construction Programs”
- Standard Form LLL, “Disclosure of Lobbying Activity”
- Form RD 400-1, “Equal Opportunity Agreement”
- Form RD 400-4, “Assurance Agreement (Under Title VI, Civil Rights Act of 1964)”

4.3 Project Proposal

The project proposal should outline the project in sufficient detail to provide a reader with a complete understanding of how the loan program will work. Explain what you will accomplish by lending funds to individual well owners. Demonstrate the feasibility of the proposed loan program in meeting the objectives of this grant program. The proposal should cover the following elements:

4.3.1 Project Summary

Present a brief project overview. Explain the purpose of the project, how it relates to RUS’s purposes, how you will carry out the project, what the project will produce, and who will direct it.

4.3.2 Needs Assessment

Describe why the project is necessary. Demonstrate that individual well owners need loan funds. Quantify the number of prospective borrowers or provide statistical or narrative evidence that a sufficient number of borrowers will exist to justify the grant award. Describe the service area. Address community needs.

4.3.3 Project Goals and Objectives

Clearly state your project goals. Your objectives should clearly describe the goals and be concrete and specific enough to be quantitative or observable. They should also be feasible and relate to the purpose of the loan program.

4.3.4 Project Narrative

The narrative should cover in more detail the items briefly described in the Project Summary. It should establish the basis for any claims that you have substantial expertise in promoting the safe and productive use of individually-owned household water well systems. In describing what the project will achieve, you should tell the reader if it also will have broader influence. The narrative should address the following points:

- Document your ability to administer and service a revolving fund in accordance with the provisions of 7 CFR Part 1776. (Note: the USDA Centralized Servicing Center will service loans, subject to approval by USDA. See Section 2.5 of this guide.)
- Document that, to establish the revolving fund, you can commit financial resources your organization controls. This documentation should describe the sources of funds other than the HWWS grant that will be used to pay your operational costs and provide financial assistance for projects.
- Demonstrate that you have secured commitments of significant financial support from other funding sources, if appropriate.
- List the fees and charges that borrowers will be assessed.

4.4 Work Plan

The work plan must describe the tasks and activities that will be accomplished with available resources during the grant period. It must show the work you plan to do to achieve the anticipated outcomes, goals, and objectives set out for the HWWS Program. The plan must:

- Describe the work to be performed by each person.
- Give a schedule or timetable of work to be done.
- Show evidence of previous experience with the techniques to be used or their successful use by others.
- Outline the loan program to include the following: specific loan purposes, a loan application process; priorities, borrower eligibility criteria, limitations, fees, interest rates, terms, and collateral requirements.
- Provide a marketing plan.
- Explain the mechanics of how you will transfer loan funds to the individual borrowers.
- Describe follow-up or continuing activities that should occur after project completion such as monitoring and reporting borrowers' accomplishments.
- Project Evaluation. It should describe how the results will be evaluated, in line with the project objectives.
- Personnel. The applicant should list all personnel responsible for administering this program along with a statement of their qualifications and experience.

4.5 Budget and Budget Justification

The written justification for projected costs should explain how budget figures were determined for each category. It should indicate which costs are to be covered by grant funds and which costs will be met by your organization or other organizations. The justification should account for all expenditures discussed in the narrative. It should reflect appropriate cost-sharing contributions. The budget justification should explain the budget and accounting system proposed or in place. The administrative costs for operating the budget should be expressed as a percentage of the overall budget. The budget justification should provide specific budget figures, rounding off figures to the nearest dollar. Applicants should consult OMB Circular A-122: "Cost Principles for Non-Profit Organizations" for information about appropriate costs for each budget category.

4.6 Required Information Not Found on Standard Application Forms

In addition to completing the standard application forms, you must submit supplementary materials:

4.6.1 Evidence of Legal Existence

Demonstrate that your organization is legally recognized under state and Federal law. Satisfactory documentation includes, but is not limited to, certificates from the Secretary of State, or copies of state statutes or laws establishing your organization. Letters from the IRS awarding tax-exempt status are not considered adequate evidence.

4.6.2 List of Directors and Officers

Submit a certified list of directors and officers with their respective terms.

4.6.3 IRS Tax Exempt Status

Submit evidence of tax exempt status from the Internal Revenue Service.

4.6.4 Debarment and Suspension Rules

You must disclose debarment and suspension information required in accordance with 7 CFR, Part 3017, subpart 3017.335, if it applies. The section heading is "What information must I provide before entering into a covered transaction with the Department of Agriculture?" It is part of the Department of Agriculture's rules on Governmentwide Debarment and Suspension.

4.6.5 Drug-free Workplace Requirements

You must identify all of your organization's known workplaces by including the actual address of buildings (or parts of buildings) or other sites where work under the award takes place. Workplace identification is required under the drug-free workplace requirements in accordance with 7 CFR, Part 3021, subpart 3021.230. The section heading is "How and when must I identify workplaces?" It is part of the Department of Agriculture's rules on Governmentwide Requirements for Drug-Free Workplace (Financial Assistance).

4.6.6 Audit

Submit the most recent audit of your organization.

4.6.7 Financial Statements

Submit the following financial statements:

- A pro forma balance sheet at start-up and for at least three additional years;
- Balance sheets, income statements, and cash flow statements for the last three years. If your organization has been formed less than three years, the financial statements should be submitted for the periods from inception to the present.
- Projected income and cash flow statements for at least three years supported by a list of assumptions showing the basis for the projections.

The projected income statement and balance sheet must include one set of projections that shows the revolving loan fund only and a separate set of projections that shows your organization's total operations.

4.7 Optional Information Not Found on Standard Application Forms

You may present additional information to support and describe your plan for achieving the grant objectives. The information may be regarded as essential for understanding and evaluating the project such as letters of support, resolutions, policies, etc. The supplements may be presented in appendices to the proposal.

Section 5: Application Review Process

5.1 Receipt Acknowledgment

By letter sent within 30 days of receiving your application, RUS will acknowledge the application's receipt. Your application will be reviewed for completeness to determine if you included all of the items required. If your application is incomplete or ineligible, RUS will return it to you with an explanation.

5.2 Evaluating the Application

A review team, composed of at least two members, will evaluate all applications and proposals. They will make overall recommendations based on factors such as eligibility, application completeness, and conformity to application requirements. They will score the applications based on criteria in the next section.

5.3 Scoring Criteria

All applications that are complete and eligible will be ranked competitively based on the following scoring criteria:

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Scoring Criteria	Points
1 Degree of expertise and experience in promoting the safe and productive use of individually-owned household water well systems and ground water.	Up to 30 points
2 Degree of expertise and successful experience in making and servicing loans to individuals.	Up to 20 points
3 Percentage of applicant contributions. Points allowed under this paragraph will be based on written evidence of the availability of funds from sources other than the proceeds of a HWWS grant to pay part of the cost of a loan recipient's project. In-kind contributions will not be considered. Funds from other sources as a percentage of the HWWS grant and points corresponding to such percentages are as follows:	
(a) Less than 25 percent –;	ineligible
(b) Greater than 25 percent but not more than 30 percent of the total project costs	5 points
(c) Greater than 30 percent but not more than 50 percent of the total project costs	10 points
(d) Over 50 percent of the total project costs	20 points
4 Extent to which the work plan demonstrates a well thought out, comprehensive approach to accomplishing the objectives of this part, clearly defines who will be served by the project, and appears likely to be sustainable.	Up to 20 points
5 Lowest ratio of projected administrative expenses to loans advanced.	Up to 10 points
6 Administrator's discretion, taking into consideration such factors as:	Up to 10 points
(a) Creative outreach ideas for marketing HWWS loans to rural residents;	
(b) Amount of funds requested in relation to the amount of needs demonstrated in the proposal;	
(c) Excellent utilization of a previous revolving loan fund; and	
(d) Optimizing the use of agency resources.	
7 Description of the service area, particularly the range of the area	
(a) State	10 points
(b) Regional	15 points
(c) National	20 points
8 Extent to which the problem or issue being addressed in the Needs Assessment is defined clearly and supported by data.	Up to 15 points
9 Extent to which the goals and objectives are clearly defined, tied to the need as defined in the Needs Assessment, and are measurable.	Up to 15 points
10 Extent to which the evaluation methods are specific to the program, clearly defined, measurable, with expected program outcomes.	Up to 20 points

5.4 Application Selection

RUS will rank all qualifying applications by their final score. Applications will be selected for funding, based on the highest scores and the availability of funding for HWWS grants. Each applicant will be notified in writing of the score its application receives.

5.5 Possible RUS Actions on the Application

In making its decision about your application, RUS may determine that your application is:

- Eligible and selected for funding,
- Eligible but offered fewer funds than requested,
- Eligible but not selected for funding, or
- Ineligible for the grant.

5.6 Appeals Process

In accordance with 7 CFR part 1900, subpart B, you generally have the right to appeal adverse decisions. Some adverse decisions cannot be appealed. For example, if you are denied RUS funding due to a lack of funds available for the grant program, this decision cannot be appealed.

However, you may make a request to the National Appeals Division (NAD) for a determination of the appealability of a specific adverse decision. The appeal must be in writing and filed at the appropriate Regional Office, which can be found at <http://www.nad.usda.gov/offices.htm> or by calling (703) 305-1166.

Appendix A—Rules and Regulations

These rules and regulations have been mentioned throughout the text of the guidelines, but are listed in one place for easy reference. The Code of Federal Regulations is located at <http://www.gpoaccess.gov/cfr/index.html>. The OMB circulars are located at <http://www.whitehouse.gov/omb/circulars/index.html>.

- Code of Federal Regulations (CFR), Title 7, Part 1776: “Household Water Well System Grant Program”
- CFR, Title 7, Part 3017, “Governmentwide Debarment and Suspension (Nonprocurement)”
- CFR, Title 7, Part 3021, “Governmentwide Requirements for Drug-free Workplace (Financial Assistance)”
- CFR, Title 7, Part 1900, subpart B, “Adverse Decisions and Administrative Appeals”
- CFR, Title 7, Part 3015: “Uniform Federal Assistance Regulations”
- CFR, Title 7, Part 3019: “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations”
- OMB Circular A-122: “Cost Principles for Non-Profit Organizations”
- OMB Circular A-133: “Audits of States, Local Governments, and Non-Profit Organizations”

Appendix B—Loan Servicing Agreement

LOAN SERVICING AGREEMENT

between

**USDA – RURAL DEVELOPMENT
CENTRALIZED SERVICING CENTER
(SERVICER)**

and

(GRANTEE)

Effective as of _____

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This Loan Servicing Agreement (the "Agreement") effective as of _____, is by and between _____(GRANTEE"), and USDA, Rural Development, Centralized Servicing Center, (the "SERVICER").

WITNESSETH

WHEREAS, GRANTEE would like SERVICER to service certain Loans defined below;

WHEREAS, GRANTEE and SERVICER desire to execute this Agreement whereby SERVICER will service the Loans under the terms and conditions described herein.

NOW, THEREFORE, in consideration of the mutual covenants made herein and for other good and valuable consideration, the sufficiency of which is hereby acknowledged, GRANTEE and SERVICER ("Party" or "Parties") agree as follows:

**ARTICLE I
DEFINITIONS**

- 1.1 **"Agreement"**: As defined in the first paragraph hereof.
- 1.2 **"Business Day"**: Any day other than (a) a Saturday or Sunday, or (b) a day on which banking institutions are authorized or obligated by law or by executive order to be closed.
- 1.3 **"GRANTEE"**: As defined in the first paragraph hereof.
- 1.4 **"Loans"**: The loans serviced by SERVICER pursuant to this Agreement.
- 1.5 **"Loan Document(s)"**: All documents related to a Loan, including servicing records.
- 1.6 **"Borrower(s)"**: The parties that have executed the security instrument, including, but not limited to, note, mortgagors, etc.
- 1.7 **"SERVICER"**: As defined in the first paragraph hereof.
- 1.8 **"Servicing"**: The rights and responsibilities of SERVICER with respect to servicing the loans under this Agreement.
- 1.9 **"Transfer Date"**: The date or dates, including the Initial Transfer Date, mutually agreed to by GRANTEE and SERVICER on which SERVICER assumes servicing responsibility for a related Loan. Unless otherwise specified, Transfer Date is intended to refer to each loan's Transfer Date.

ARTICLE II
TRANSFER OF SERVICING

2.1 Servicing Transfer Date

(a) SERVICER shall assume the servicing responsibilities with respect to any loan originated by GRANTEE immediately upon closing of such loan provided that GRANTEE notifies the related borrowers no later than the closing of such loan that the loan will be serviced by SERVICER.

2.2 Delivery of Loan Documents. No later four (4) Business Days following any loan closings, GRANTEE shall provide SERVICER with copies of the Loan Documents that are in GRANTEE's possession.

2.3 On the Transfer Date, GRANTEE shall provide SERVICER with an accounting of interim interest and loan information sufficient to enable SERVICER to reconcile the balances with the accounts for each Loan.

2.4 Cooperation. GRANTEE and SERVICER shall cooperate with and assist each other, as requested, in carrying out the purposes of this Agreement.

ARTICLE III
COMPENSATION

3.1 Servicing Fee. Servicing Fees is outlined on Exhibit A.

ARTICLE IV
MECHANICS OF SERVICING

4.1 Servicing of Loans. SERVICER shall service the Loans as provided herein until all outstanding principal and interest on the Loans are paid in full, until a Loan is transferred to GRANTEE pursuant to Paragraph 4.8 and 4.12 hereof or until prior termination pursuant to Paragraph 7.6 of this Agreement.

4.2 Standard of Care. SERVICER shall at all times service the Loans in accordance with all applicable statutes, regulations, contractual provisions and prudent loan servicing practices, and shall exercise the same standard of care that it exercises in the servicing of loans for its own account.

4.3 Loan Payments.

(a) SERVICER shall use its best efforts to collect all payments under each Loan when the same become due and payable.

(b) SERVICER shall issue payment coupons or monthly statements to each Mortgagor indicating the dollar amount such Mortgagor must pay on its Loan each month.

(c) Any payments, partial prepayments or payoff funds ("payments") received by GRANTEE after the Transfer Date shall, within twenty-four (24) hours of receipt, be forwarded to SERVICER with an endorsement of such payments to SERVICER and sufficient information to permit appropriate processing of the payments by SERVICER. SERVICER shall use its best efforts to post such payments on a timely basis.

4.4 Bank Accounts.

(a) Principal and interest received by SERVICER from each Borrower each month, any late fees collected from Mortgagors shall be deposited into accounts with a banking or savings institution the accounts of which are insured by the Federal Deposit Insurance Corporation ("FDIC") or any successor agency thereto.

4.5 Accounting/Reporting/Remittances.

(a) The cutoff date ("Cutoff Date") used by SERVICER, for purposes of providing reports to GRANTEE, shall be the last day of each month; however, if the last day is not a Business Day, the Cutoff Date shall be the immediately preceding Business Day.

(b) Within three (3) Business Days of each Cutoff Date SERVICER shall remit to GRANTEE all principal and late fees actually received by SERVICER from Borrowers.

(c) SERVICER shall deliver to GRANTEE a monthly trial balance type report.

(d) SERVICER shall not make any advances of principal to GRANTEE.

4.6 Loan Documents. GRANTEE shall retain the original Loan Documents for each Loan serviced by SERVICER. SERVICER shall retain, safely store and continually maintain copies of the Loan Documents for each Loan on GRANTEE's behalf. From time to time GRANTEE shall deliver to SERVICER, as soon as practicable following receipt of a written request from SERVICER and at no expense to SERVICER, any Loan Document needed by SERVICER in connection with the servicing of a Loan. SERVICER's written request for the release of a Loan Document shall specify in reasonable detail the reason for SERVICER's request. During the time that any such Loan Document is in the possession of SERVICER, such possession shall be deemed to be in trust for the benefit of GRANTEE and SERVICER shall promptly return to GRANTEE any Loan Document so released when SERVICER's need for such Loan Document no longer exists. GRANTEE shall indemnify and hold SERVICER harmless against any and all claims, losses, damages, penalties, fines, forfeitures, reasonable and necessary legal fees and related costs, judgments, and any other costs, fees and expenses that SERVICER may sustain in connection with any third party claim in any way related to GRANTEE's failure to release, in a timely manner, the Loan Documents requested by SERVICER pursuant to this Paragraph.

4.7 Confidentiality of Mortgagor Records.

(a) Except as may be otherwise authorized under this Agreement or required under applicable law, SERVICER shall hold in strict confidence any and all information regarding the Loan Servicing transferred, developed and maintained pursuant to this Agreement. Nothing in this Paragraph 4.7 shall prohibit SERVICER from (i) performing surveys with Mortgagors whether performed by SERVICER's employees or outside firms selected by SERVICER, intended to help SERVICER in performing its servicing functions or (ii) providing borrower payment status information to credit bureaus.

(b) GRANTEE and SERVICER agree that access to, and use of, borrower information will be consistent with the borrower's privacy rights and with General Privacy Principles. In addition, GRANTEE and SERVICER shall implement and maintain appropriate measures designed to meet the objectives and any guidelines establishing standards for safeguarding non-public customer information as adopted by any federal regulatory agency.

4.8 Transfer of Delinquent Loans to GRANTEE. SERVICER shall immediately transfer the servicing of any Loan which becomes ninety (90) days delinquent and for which legal action is in SERVICER'S opinion unavoidable to GRANTEE. Upon such transfer, GRANTEE will determine and pursue any legal action. No later than ten (10) days following such transfer, SERVICER shall deliver to GRANTEE all Loan Documents in its possession. The servicing transfer will take place in accordance with common industry standards and Exhibit B hereto.

4.9 Claims Affecting GRANTEE and SERVICER.

(a) SERVICER shall provide GRANTEE with prompt notice of any claims or occurrences which may create liability for GRANTEE. For example, such claims may take the form of counterclaims or affirmative defenses plead by Borrowers in collection. GRANTEE shall provide SERVICER's with prompt notice of any claims or occurrences which may create liability for SERVICER.

(b) GRANTEE and SERVICER's legal council's will cooperate in identifying any claims or occurrences affecting each other and in selecting local counsel to protect their respective interests, and will mutually agree on responsibility for managing such claims and paying any associated costs or expenses.

(c) Routine legal proceedings, including but not limited to, mechanics lien actions, municipal code violations and bankruptcy, foreclosures, will be managed by GRANTEE to protect the interests of GRANTEE. SERVICER shall provide necessary information for such routine legal proceedings to grantee.

4.10 Delinquency Information. SERVICER shall provide GRANTEE with such information and reports regarding delinquencies that are standard within the servicing industry. Any additional reports requested by GRANTEE must be reasonable and within a reasonable timeframe for delivery.

4.11 Supplemental Information. From time to time prior to and after the Transfer Date, GRANTEE shall furnish SERVICER such incidental information, which is reasonably available to GRANTEE and not reasonably available to SERVICER, supplemental to the information contained in the documents and schedules delivered pursuant to this Agreement, which is necessary for the proper Servicing of the Loans.

4.12 Miscellaneous Servicing Requirements.

(a) SERVICER shall ensure the notification to GRANTEE of all loan satisfaction. GRANTEE is responsible to record any Mortgage satisfactions or termination statements. GRANTEE shall be responsible for all costs, fees and liabilities arising from its failure to deliver or record satisfactions or termination statements in accordance with applicable law.

(b) In the event that any default occurs under any Loan as defined therein, SERVICER shall promptly and in any event within thirty (30) days, notify the Borrower of such default and take such further steps to encourage the Borrower to correct such default as shall be reasonable under the circumstances. If such default continues for a period of forty-five (45) days, SERVICER shall comply promptly with all applicable prerequisites under federal, state and local statutes and regulations to the enforcement of such Loan. SERVICER shall initiate and complete promptly all actions necessary to enforce such Loan.

(c) SERVICER shall not, without the prior written consent of GRANTEE, waive or vary the terms of any Loan. Notwithstanding, SERVICER may (i) extend the due date of a payment under a Loan up to sixty (60) days, (ii) waive late fees, (iii) increase the principal balance of any Loan provided the term of the Loan is not extended and the increase relates to amounts owed by Borrower in connection with the servicing of the Loan and (iv) execute forbearance or moratorium agreements with Borrowers if, in the exercise of SERVICER's reasonable judgment, it deems such action(s) to be in the best interests of GRANTEE.

(d) SERVICER shall notify GRANTEE if SERVICER identifies a Loan which may be the subject of a pattern of fraud or material misrepresentation. SERVICER and GRANTEE shall agree on an appropriate course of action relating to such Loans.

(e) GRANTEE and SERVICER shall mail to Borrower any notices required to be provided by GRANTEE or SERVICER, respectively, under applicable law, regulation or this Agreement.

(f) SERVICER shall maintain a servicing file which shall evidence SERVICER's compliance with the terms of this Agreement. The servicing file is held in trust by SERVICER for the benefit of GRANTEE as owner of the file.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF SERVICER

SERVICER represents and warrants as of the Transfer Date as follows:

5.1 Good Standing. SERVICER is in good standing and is a qualified SERVICER for USDA, Rural Development.

5.2 Capacity. SERVICER has capacity to perform the obligations required of it hereunder. This Agreement constitutes a valid and binding agreement of SERVICER enforceable in accordance with its terms, and no offset, counterclaim or defense exists to the full performance by SERVICER of this Agreement, except as the same may be terminated as stated in paragraph 7.6.

5.3 Effective Agreement. The execution, delivery and performance of this Agreement by SERVICER, its compliance with the terms hereof and the consummation of the transactions contemplated hereby will not violate, conflict with, to the best of SERVICER's knowledge any state or federal law. SERVICER has not entered into an agreement with or is not negotiating an agreement with any other party to sell, assign or transfer the Servicing.

5.4 Litigation. To the best of SERVICER's knowledge, there is no litigation, proceeding, or governmental investigation pending or threatened, or any order, injunction or decree outstanding which is reasonably expected to have a material adverse effect on SERVICER's ability to perform the Servicing.

5.5 Servicing Obligations. SERVICER shall, after the Transfer Date, perform and discharge all obligations and duties relating to the Servicing and Accounts in compliance with all applicable laws and regulations and in accordance with the terms of the Loan documents and this Agreement. SERVICER shall maintain records evidencing its compliance with such requirements and shall maintain sufficient records to ensure continued compliance.

ARTICLE VI

INDEMNIFICATION

6.1 Indemnification by GRANTEE. GRANTEE shall indemnify and hold SERVICER harmless from and shall reimburse SERVICER for any losses, damages, deficiencies, claims, causes of action or expenses of any nature (including reasonable attorney's fees), but excluding consequential and other special damages, suffered or incurred by SERVICER before or after the Transfer Date which result from:

(a) Any misrepresentation made by GRANTEE in this Agreement, or in any schedule, written statement or certificate furnished by GRANTEE pursuant to this Agreement; or

- (b) Any breach of warranty by GRANTEE, or the non-fulfillment of any covenant or condition of GRANTEE contained in this Agreement, or in any schedule, written statement or certificate furnished by GRANTEE pursuant to this Agreement; or
- (c) Material errors in originating or servicing any of the Loans prior to the Transfer Date, including improper action or failure to act when required to do so; or
- (d) Any miscalculation, improper action or omission arising from or relating to any statement or communication provided by GRANTEE to a Borrower; provided, however, that SERVICER has taken all reasonable and appropriate actions to mitigate any such losses, damages, deficiencies, claims, causes of action or expenses.

ARTICLE VII
MISCELLANEOUS PROVISIONS

7.1 Survival of Representations and Warranties. Each Party hereto covenants and agrees that the representations and warranties in this Agreement, and in any document delivered or to be delivered pursuant hereto, shall survive the Transfer Date and any termination of this Agreement.

7.2 Notices. All notices, requests, demands and other communications which are required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been given if personally delivered or sent by first class, postage prepaid or sent by prepaid overnight delivery service or sent by facsimile transmission as follows:

(a) If to GRANTEE, to:

Name of GRANTEE and address
Fax #
Phone #

(b) If to SERVICER, to:

Servicer Name Address and contacts

or to such other address as GRANTEE or SERVICER shall have specified in writing to the other.

7.3 Waivers. Either GRANTEE or SERVICER may, by written notice to the other:

(a) Extend the time for the performance of any of the obligations or other transactions of the other; and

(b) Waive compliance with any of the terms, conditions or covenants required to be complied with by the other hereunder.

The waiver by GRANTEE or SERVICER of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any other breach.

7.4 Entire Agreement; Amendment. This Agreement constitutes the entire agreement between the Parties with respect to the transfer of Servicing and supersedes all prior agreements with respect thereto. This Agreement may be amended only by a written instrument signed by both GRANTEE and SERVICER.

7.5 Termination

(a) This Agreement may be terminated by either GRANTEE or SERVICER, with or without cause, upon ninety (90) days prior written notice and USDA-Rural Development RUS approval. Upon termination, GRANTEE and SERVICER shall cooperate with each other in effecting the termination in a reasonable and prudent manner including, without limitation, the orderly transfer of Loan files and Servicing records.

(b) If any of the Loans subject to this Agreement are sold by GRANTEE to third parties this Agreement shall terminate with respect to the Servicing of such Loans and shall be replaced by other agreements(s) executed in connection with such sale.

7.6 Assignment. This Agreement may not be assigned by GRANTEE without the prior written consent of SERVICER. Except as provided in this Paragraph (7.7) the Servicing rights and responsibilities conveyed herein shall not be assigned, sub-contracted or delegated, in whole or in part, by SERVICER without the prior written notification to GRANTEE.

7.7 Binding Effect. This Agreement shall inure to the benefit of and be binding upon the Parties hereto and their successors and assigns. Nothing in this Agreement, express or implied, is intended to confer on any person other than the Parties hereto and their successors and assigns, any rights, obligations, remedies or liabilities.

7.8 Headings. Headings on the Articles and Paragraphs in this Agreement are for reference purpose only and shall not be deemed to have any substantive effect.

7.9 Applicable Law. This Agreement shall be construed in accordance with laws of the State of Missouri.

7.10 Incorporation of Exhibits. Exhibits A and B attached hereto shall be incorporated herein and shall be understood to be a part hereof as though included in the body of this Agreement. The Parties agree that Exhibits may be added to this Agreement and amended by the Parties agreeing and signing and dating amended or new Exhibits.

7.11 Severability of Provisions. If any one or more of the covenants, agreements, provisions or terms of this Agreement shall be for any reason whatsoever held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Agreement and shall in no way affect the validity or enforceability of the other provisions of this Agreement or of the rights of the Parties hereto.

7.12 Confidentiality.

(a) The Parties agree that all information provide pursuant to this Agreement by each Party to the other Party is confidential and proprietary to the Party providing the information and no Party shall use any information provided by the other Party for any purposes other than as permitted or required for performance under this Agreement. Each Party agrees not to disclose or provide any information provided by the other Party to any third party (with the exception of (i) any affiliate or subsidiary which is bound to retain the confidentiality of the information, (ii) employees who have a need to know in the course of performing services pursuant to this Agreement provided that such employee is bound to retain the confidentiality of the information and (iii) cross-sell or marketing efforts under Paragraph 4.10) without the express written consent of the other Party and each Party agrees to take all reasonable measures, including without limitation, measures taken by each Party to safeguard its own confidential information to prevent any such disclosure by its employees, agents, or contractors.

(b) Nothing provided herein shall prevent any Party from disclosing information which (i) is or hereafter becomes part of the public domain through no fault of that Party, (ii) is received from or furnished to a third party without similar restriction on the third party's rights, (iii) is independently developed by it, (iv) is disclosed pursuant to a requirement of law or (v) is already known to it. If either Party hires a third party to assist it in the performance of this Agreement, or assigns any portion of its rights or delegates any portion of its responsibilities or obligations under this Agreement to a third party, the assigning or delegating Party shall cause its assignee or delegee to be bound to retain the confidentiality of the information.

7.13 Relationship of Parties. Nothing herein contained shall be deemed or construed to create a partnership or joint venture between the Parties. In performing its duties and responsibilities hereunder, SERVICER shall act independently of GRANTEE, as the case may be.

IN WITNESS WHEREOF, each of the undersigned Parties to this Agreement has caused this Agreement to be duly executed in its name by one of its duly authorized officers, all as of the date first above written.

GRANTEE's Name

By: _____
Name: _____
Title: _____
Date: _____

SERVICER's Name

By: _____
Name: _____
Title: _____
Date: _____

EXHIBIT A
FEE(S)/SERVICES

A. Basic Services

Basic Services Will Include the Following:

- Boarding the Loan on MortgageServ System
- Monthly Billing Statements to Borrower
- Payment Posting
- Customer Call Service for Borrowers via a 1-800 number
- Phone calls and letters to Delinquent Borrowers
- Year-End Statement to Borrower
- Issuance of Pay-off Quotes and Processing of Payoff Payments for Loans
- Credit Bureau Reporting
- Monthly Reports to Grantee as agreed to in Servicing Agreement
- Monthly transmittal of payments collected to Grantee
- Monthly bill to Grantee for servicing of accounts.

Monthly Cost per Loan: \$ 5.70*

NOTE: Grantee will be billed on a monthly basis for the number of loans residing on the MortgageServ System as of the end of the month. The bill will be produced by the third workday of the month, with payment due by the 20th of the month or as specified in the servicing agreement.

B. Other Servicing Options

Other servicing options will be billed on an actual cost basis to the Grantee:

- Bankruptcy tracking \$ 8.00/month
- Foreclosure Processing \$1394.00 – Total charge for six month to two year state specific foreclosure action

Servicing Agreement can be terminated by Servicer or Grantee with six month advance notification and USDA-Rural Development, Rural Utilities Program approval.

*Monthly cost per loan is subject to annual increases based upon OPM's General Schedule salary increases which have averaged 3.55% over the past ten years.

Chosen Servicing Cost

A. _____ **Basic Services**

B. _____ **Other Options**

EXHIBIT B

TRANSFER OF DELINQUENT LOANS FROM SERVICER TO GRANTEE

SERVICER will maintain loans for GRANTEE. By the 5th calendar day of each month, SERVICER will review any loan that is 90 days or more delinquent to determine eligibility for service release to GRANTEE. If any loan(s) meets such eligibility, the GRANTEE will be notified no later than the date of delivery of servicing transfer notice to the Borrower with loan(s) transferred to GRANTEE no later than the end of the same month.

As the objective is to only transfer loans for which legal action is unavoidable, such items that will be reviewed to determine transfer eligibility, but not limited to, are referenced as follows:

1. Borrower's pay habits.
2. Recent conversations with Borrower and/or documentation provided by Borrower to support expected receipt of payments due.
3. Bankruptcy Notification.

If a loan(s) is transferred to GRANTEE and GRANTEE is able to avoid foreclosure or legal action, GRANTEE will transfer loan(s) back to SERVICER. The loan(s) must have a current status at time of servicing transfer back to SERVICER. Such servicing transfer will take place in accordance with common industry standards, and GRANTEE shall deliver to SERVICER all loan documents in its possession.