

## Community Affairs

## Fact Sheet

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# Partnering with USDA's Rural Development: The Community Facilities Guaranteed Loan Program

## Introduction

Rural Development (RD), a U.S. Department of Agriculture (USDA) agency, provides credit enhancements to help lenders finance community facilities in rural areas with populations of up to 20,000. Through the Community Facilities Guaranteed Loan Program (CFGLP), RD guarantees up to 90 percent of loss of principal and interest on loans or bonds made to develop or improve essential community facilities.

Examples of typical community facilities that can be funded by the CFGLP include, but are not limited to:

- Community health services, such as health clinics including federally qualified health centers, assisted-living facilities, and hospitals;
- Fire, rescue, and public-safety facilities, such as police cars, fire trucks, and police stations;
- Educational and cultural facilities, such as schools, libraries, and theaters;
- Transportation facilities, such as airports, street improvements, and bus service;
- Community support services, such as child and adult day care; and
- Public buildings and improvements, including community and multipurpose centers.

Detailed information can be found at the [USDA Web site](#).

## Program Overview

Loan funds may be used to construct, enlarge, or improve community facilities for health care, public safety, and public services. This can include costs to acquire land needed for a facility, pay necessary professional fees, and purchase equipment required for its operation. Under certain circumstances, refinancing of debts may be eligible under the guaranteed loan program. CFGLP funds may be used to refinance debt if the debt being refinanced is a secondary part of the loan, is associated with the project facility, and if the

applicant's creditors are unwilling to extend or modify terms for the new loan to be feasible.

## Guarantee and Lenders of Record

The guaranteed portions of loans made under this program are backed by the full faith and credit of the U.S. government and can be sold on the secondary market. An Assignment of Guarantee, representing the guaranteed portion, is issued by the Rural Housing Service of USDA Rural Development, and the agency pays all principal and interest in the event of a loss. The non-guaranteed portion absorbs the loss, if any.

National banks and federal savings associations are Eligible Lenders of Record, but must also have the capacity and authority to adequately service loans through maturity for which a guarantee is requested.

## Benefits to Banks

CFGLP financings often result in excellent public relations with the community because these projects enhance infrastructure and increase community stability. In addition,

- USDA guarantees loans for up to 90 percent of the loss.
- CFGLP loans are eligible to meet Community Reinvestment Act (CRA) requirements.
- The guaranteed portion of a loan may be sold on the secondary market through an assignment of guarantee.
- Lenders of Record use their own forms, loan documents, and security instruments.
- There is no maximum loan limit; the amount is determined based upon project feasibility, repayment ability, and reasonable project cost.
- Prepayment penalties allowed
- Only the non-guaranteed portion of a loan counts toward the loan-to-value ratio required by the FDIC.

- Only the non-guaranteed amount of the loan counts against the Lender’s loan limit.
- The only USDA fee is a one-time 1 percent guarantee fee assessed against the guaranteed portion, with no annual renewal fee.
- Rates and terms are flexible and are negotiated between the Lender of Record and the borrower.
- Typically, loan approval occurs 30 to 60 days after the receipt of a completed application.

### How May a Bank Participate?

Applications are handled by USDA RD field offices. RD staff can discuss a community’s needs and the services available from USDA. Field staff can provide application materials and current program information, and assist in the preparation of an application.

The application process is a two-stage procedure : preapplication, which take s about 45 days; and application, which takes up to an additional 30 days. Forms are available at the [USDA Web site](#).

For lenders interested in participating, visit the [USDA Web site](#) or call the RD State Office where the project is [located](#).

### Community Reinvestment Act (CRA)

The OCC and other federal financial supervisory agencies recognize the importance of access to credit in rural communities. Some loans made through the CFGLP may also meet the definition of community development loan in the CRA regulation and therefore may receive favorable CRA consideration. For example, community development loans include loans to local, state, and tribal governments for community development activities; or loans that finance community services targeted to low- and moderate-income individuals. Community development loans also include loans that revitalize or stabilize designated distressed or underserved non-metropolitan, middle-income geographies by financing infrastructure projects that meet the needs of the community, including low- and moderate-income members of the community.<sup>1</sup>

Banks that lend to projects that meet the community development definition, and that are located within the bank’s assessment area, would receive positive CRA consideration. In addition, financing projects located

in the broader statewide or regional area that includes the bank’s assessment area(s), may receive positive CRA consideration if the projects have the potential to benefit the bank’s assessment area, or, if the bank has otherwise adequately addressed the community development needs of its assessment area(s), even if these projects will not directly benefit the institution’s assessment area(s).

### For Further CRA Information:

OCC information on CRA:

- [CRA: Community Development Loans, Investments, and Services Fact Sheet](#)
- [Community Reinvestment Act](#)

### For More Information:

USDA program overview:

- [USDA RD field offices](#)

Housing and Community Facilities Program regulation:

- [USDA Guaranteed CF Regulations 7 CFR 3575](#)
- [OCC archived articles on USDA-guaranteed loans](#)

Disclaimer:

The OCC encourages all parties interested in these programs to contact their state U.S. Department of Agriculture Rural Development administrator for detailed information.

#### Disclaimer

*Community Developments Fact Sheets* are designed to share information about programs and initiatives of interest to bankers and community development practitioners. These fact sheets differ from OCC bulletins and regulations in that they do not reflect agency policy and should not be considered definitive regulatory or supervisory guidance. Some of the information used in the preparation of this fact sheet was obtained from publicly available sources. These sources are considered reliable, but the use of this information does not constitute an endorsement of its accuracy by the OCC.

<sup>1</sup> See (2009 Interagency CRA Questions and Answers), 74 Fed. Reg. 498, January 6, 2009, \_\_\_\_\_ .12(g)(4)(iii) – 3 and – 4.