

SUPPORTING STATEMENT

7 CFR Part 1951 Subpart F

Analyzing Credit Needs and Graduation Review

OMB Control No. 0575-0093
(August 2006)

A. Justification

1. Explain the circumstances that make the collection of information necessary.

The Farm Service Agency (FSA), the Rural Housing Service (RHS), and the Rural Business-Cooperative Service (RBS) currently share this regulation. FSA's Farm Loan Programs (FLP) provides supervised credit in the form of loans to family farmers and ranchers to purchase land and finance agricultural production. RHS provides supervised credit in the form of Multi-Family Housing (MFH) loans and Community Facility (CF) loans. The MFH loan program provides eligible persons with rental or cooperative housing pursuant to the Housing Act of 1949. RBS provides supervised credit in the form of direct loans to business in rural areas. This regulation does not apply to the Single Family Housing (SFH) program of RHS. The Specialty Lenders (SLD) programs of RBS are not subject to graduation policies.

FSA's FLP, CF loans and RBS Business Programs are administered under the provisions of the Consolidated Farm and Rural Development Act (CONACT), as amended MFH loans are administered under the Housing Act of 1949 as amended.

Section 333 of the CONACT, as amended, requires the Agencies to graduate their direct loan borrowers to other credit when they are able to do so. Graduation is an integral part of the Agency lending, as Government loans are not meant to be extended beyond a borrower's need for subsidized rates or non-market terms. The notes, security instruments, or loan agreements of most borrowers require borrowers to refinance their Agency loans. When other credit becomes available to reasonable rates and terms, the Agency will continue to review the borrowers for possible graduation at periodic intervals. Also, Section 333 (A) (f) of the Act (7USC 1983a (f)) requires the Agency to provide a financial prospectus to lenders who may be interested in providing guaranteed and non-guaranteed credit to the FSA's direct farm loan borrowers. The information to be collected to carry out these mandates will primarily be financial data such as amount of income, expenses, asset values and liabilities.

2. Indicate how, by whom, and for what purpose the information is to be used. Except for a new collection, indicate the actual use the Agency has made of the information received from the current collection.

FSA, RBS, or RHS submits this information collection to evaluate the borrower's financial condition for graduation purpose. The information will be used in the Agency's efforts to

graduate direct loan borrowers to private credit, with or without the Agency loan guarantees. Specifically, the burden to be cleared with this regulation is as follows:

7 CFR 1951.262(e) Graduation Candidates:

This section requires FSA farm loan borrowers to submit complete financial information at least every other year so the Agency may determine the borrower's need for continuous Government assistance. This would require the Agency to review half of its portfolio, or 36,874 borrowers, annually for graduation to commercial credit. However, many borrowers will have already provided the same information due to the Limited Resource rate reviews and annual Year-End Analysis required under other subparts of this chapter. FSA records shows that an average 11,589 graduation reviews per year have been performed in the past 3 years. The estimated annual response is 3 hours for the borrower to complete, including preparation, travel and supervisory meetings.

7 CFR 1951.262(f) Submission of prospectus to Local Lenders:

This section requires the Agency to provide a financial prospectus to lenders who may be interested in providing guaranteed and non-guaranteed credit to FSA's direct farm loan borrowers. This allows the Agency to make a trial referral, either verbal or written, to individual lenders or to groups of lenders. FSA Guide Letter 1951-F-9, or a similar letter, can be used to provide a borrower's prospectus to lenders to obtain an indication of their willingness to consider a borrower's financial proposal further. The lender's participation in the trial referral system is optional. The Agency will use the trial referral when it has reason to believe borrowers will not seek refinancing credit from those lenders believed to be the most willing to consider the application voluntarily. In an average, the past 3 years, 890 borrowers partially graduated and 119 borrowers fully graduated. Also, 5,680 borrowers were referred for credit to another lender to either refinance or provide rejection letter. Therefore, the estimated respondents required by this collection is at 6,689 with 1/2 of an hour per response.

7 CFR 1951.263 Graduation of non-Farm Loan Programs Borrowers:

The Agency will conduct a thorough review of the borrower's financial information, as it deems necessary to determine whether they are able to graduate to other credit. At minimum, the financial information must include a balance sheet and an income statement. RHS or RBS servicing official will conduct a review of the borrower's financial strength and repayment ability. This review will eliminate those borrowers who are unable to meet the lending criteria and policies of the area lenders. An estimated 210 CF loan borrowers will require thorough review by the CF staff. Additional documentation will be required by 105 of those borrowers. Each borrower will need 2 hours to prepare the additional information.

7 CFR 1951.264 and 1951.265 Appeals:

If a borrower fails to provide information following receipt of graduation notice or letters, he/she

is in default of the terms of their security instruments. The approval official may accelerate the account based on the borrower's failure to perform as required by the loan and security instruments. If the borrower account is accelerated, the borrower may appeal the decision. A borrower that meets the local lending standards, taking into consideration the Agency's loan guarantee program, will not be considered for a subsequent loan, subordination, or consent to additional indebtedness until the borrower's ability or inability to graduate has been confirmed. If the borrower has been requested to graduate and has also been denied a request for a subsequent loan, subordination, or consent to additional indebtedness, the borrower may appeal both issues. Thus, no burden was included for appeals.

All other Rural Housing Service programs with the exception of Community Facilities (CF) have been removed from this collection because they do not have a graduation requirement.

3. Describe whether, and to what extent, the collection of information involves the use of automated, electronic, mechanical, or other technological collection techniques or other forms of information technology, e.g. permitting electronic submission of responses, and the basis for the decision for adopting this means of collection.

The Agencies are committed to the E-Government Act that requires Government agencies, in general, to provide the public the option of submitting information or transacting business electronically to the maximum extent possible.

In recent years the Agencies have made advances in utilizing technology to reduce the burden of information collection on its customers. Most Rural Development forms are accessible electronically on the internet and many program participants (particularly Preferred and Certified Lenders) utilize this method to obtain loan documents - thus reducing annual reporting and record keeping burden hours. Still, in most cases approximately 96 percent of the Agency must meet with a direct loan borrower on at least an annual basis for other requirements. Also, no forms are being approved under this package. The Agency will accept financial documents transmitted via electronic media, when possible, and it is requesting OMB approval for that method of response collection.

4. Describe efforts to identify duplication. Show specifically why any similar information already available cannot be used or modified for use for the purposes described in Item 2 above.

Information obtained for other Agency purpose will be utilized when possible. Also, a borrower may substitute other forms for Agency forms when they are substantially similar. In the past, due to technology limitations, the Agency could not share data electronically with other Agencies. However, the ongoing improvements of automation through the common computing environment will allow for the data sharing capabilities.

5. If the collection of information impacts small businesses or other small entities (item 5 of OMB Form 83-1), describe any methods used to minimize burden.

The information collection required by this regulation place no burden on small businesses or other small entities beyond that performed in the course of normal business or on small business inordinately as compared to large farms. Moreover, the information collection requirements imposed are not unreasonable in return for the benefit for which the respondent is receiving loans at attractive rates and terms to the Federal Government.

Financial service providers that must complete the information collection for the debtor are not considered small business.

6. Describe the consequences to Federal program or policy activities if the collection is not conducted or conducted less frequently, as well as any technical or legal obstacles to reducing burden.

This information collection is also required by the Agencies' authorizing legislation as a condition for program participation. The agricultural production and financial reporting cycle is typically annual. The Agency reviews and information collection have been designed to conform to that cycle in order to minimize burden. This also ensures that the Agency's decisions are based on current financial data.

7. Explain any special circumstances that would cause an information collection to be conducted in a manner.

- a. Requiring respondents to report information more than quarterly. There are no information collection requirements that require reporting on more than a quarterly basis.
- b. Requiring written responses in less than 30 days. There are no information collection requirements that require written responses in less than 30 days.
- c. Requiring more than an original and two copies. This information collection requires only an original document or a copy.
- d. Requiring respondents to retain records for more than 3 years. There is no such requirement.
- e. Not utilizing statistical sampling. There is no such requirement.
- f. Requiring use of statistical sampling which has not been reviewed and approved by OMB. There are no such requirements.
- g. Requiring a pledge of confidentiality. There are no such requirements.
- h. Requiring submission of proprietary trade secrets. There are no such requirements.

8. Describe efforts to consult with persons outside the Agency to obtain their views on the availability of data, frequency of collection, the clarity of instructions and recordkeeping, disclosure, reporting format (if any), and on data elements to be recorded, disclosed, or reported.

Notice was published on June 22, 2006 (Vol. 71, FR 35860). A notice is attached. The information requested is standard throughout the credit industry and the Agencies have the expertise to make the required determinations. The Agencies regularly consult with interested persons inside and outside of the Government who are familiar with its programs and information collection requirements. The following lending institutions were consulted:

American National Bank P.O. Box 194 Gonzales, Texas 78629
Paris National Bank 118 N Main Street Paris, Missouri 65275
Farm Credit Bank of Texas P.O. Box 216 Lockhart, Texas 78644

Each of the parties contacted stressed the importance of not duplicating the collection of this regulation and the financial reporting required by other regulations and loan agreements.

9. Explain any decision to provide any payment or gift to respondents, other than remuneration of contractors or grantees.

Responses to the requirements for this notice are a condition for a requested benefit. There is no payment or gift to respondents.

10. Describe any assurance of confidentiality provided to respondents and the basis for the assurance in statute, regulation, or Agency policy.

No assurance of confidentiality is provided. Request for information received by the Agency will be handled in accordance with the provisions of the Freedom of Information Act and the Privacy Act.

11. Provide additional justification for any question of a sensitive nature, such as sexual behavior or attitudes, religious beliefs, and other matters that are commonly considered private.

There is no information collection of a sensitive nature.

12. Provide estimates of the hour burden of the collection of information.

See the attached Form FSA 85-1. Regulations governing credit analysis and graduation reviews require the collection of this information. Estimated average response per respondent is 2.5 hours. The Agencies (FSA, RHS and RBS) had approximately the following numbers of borrowers covered by this subpart:

Program	No. of Borrowers	Burden Hours
Community Facilities	105	210
Farm Loan Programs	18,278	38,112
Total respondents & burden hours	18,383	38,322
Respondents cost per hour	\$ 29.60	N/A

Total annual respondents cost	N/A	\$ 1,134,331
Respondents cost per hour were derived by using Agricultural Statistics 2005, United States Department of Agriculture, Table 9-42 Average Income to Farm Operator Households, United States, 2001-2004, page IX-41.		

13. Provide an estimate of the total annual cost burden to respondents or recordkeepers resulting from the collection of information.

The regulation places no burden cost on respondents for capital, start up, total operation, maintenance, or the purchase of services.

14. Provide estimates of annualized cost to the Federal Government.

The estimated annual cost to the Federal Government is... **\$943,092**. This cost is salary, copying and administrative expense for Government employee time associated with information collection. There is no special equipment aside from that needed for day-to-day operations.

Summary of cost to the Government:

Graduation Candidates		
3.00 hour X \$ 24.61 X 11,589 Respondents	_____	= \$ 855,616
Submission of Prospectus to lenders		
.50 hours X \$ 24.61 X 6,689 Respondents	_____	= \$ 82,308
Graduation of non-FLP Borrowers		
2 hours X \$ 24.61 X 105 Respondents	_____	= \$ 5,168
Total Cost	_____	= \$ 943,092

There is no cost to the Government for printing or overhead cost, as this burden consists of only non-form collection. Any related forms are covered under separate OMB burden package.

Hourly wages of \$24.61 are derived from, SALARY TABLE 2005-GS at [www@opm.gov](http://www.opm.gov). The average base wage is based on USDA employees at GS-12, GS- 11 and GS- 7 step 5.

15. Explain the reasons for any program changes or adjustments reported in items 13 or 14 of the OMB Form 83-1.

There is a reduction of **36,097** hours from our previous submission. All other Rural Housing Service programs with the exception of Community Facilities (CF) have been removed from this collection because they do not have a graduation requirement and were inadvertently included in the last submission. This decrease is an adjustment.

16. For collection of information whose results will be published, outline plans for tabulation and publication.

There is no collection of information requirements in this regulation which will be published.

17. If seeking approval to not display the expiration date for OMB approval of the information collection, explain the reasons that display would be inappropriate.

No forms are approved in this docket.

18. Explain each exception to the certification statement identified in item 19 on OMB 83-I.

There are no exceptions requested.

19. How is this information collection related to the Service Center Initiative (SCI)? Will the information collection be part of the one stop-shopping concept?

This information collection is collected through the USDA Service Center. The collection is required from the public for use by service center employees who assist the public in the gathering and completion of the required documentation and then analyze the information submitted to determine borrower graduation.