2016 SUPPORTING STATEMENT
(OMB No. 0570-0017) 7 CFR Part 4279-B
Guaranteed Loanmaking - Business and Industry Loans

1. **Explain the circumstances that make the collection of information necessary.** The Business and Industry (B&I) program was legislated in 1972 under Section 310B of the Consolidated Farm and Rural Development Act, as amended. The purpose of the program is to improve, develop, or finance businesses, industries, and employment and improve the economic and environmental climate in rural communities. This purpose is achieved through bolstering the existing private credit structure through the guaranteeing of quality loans made by lending institutions, thereby providing lasting community benefits. The B&I program is administered by the Agency through Rural Development State and sub-State Offices serving each State.

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.** This subpart contains the requirements applicable to the B&I Guaranteed Loan Programs administered by the Agency. The information is used by Agency loan officers and approval officials to determine program eligibility and for program monitoring. This package excludes burden hours for customary and usual business practices of entities other than the Agency. Therefore, this package considers only the information the Agency requires in excess of what a lender would typically require of a business. The burden estimates in this package are based on the assumption that the B&I Guaranteed Loan Program will receive $1 billion in program authority in each of the next 3 years with which it will guarantee an average of 413 loans per year. **Specifically, the burden to be cleared with this document is as follows:**

REPORTING REQUIREMENTS - NO FORMS

Financing housing development sites. The financing of housing development sites is an eligible loan purpose when the borrower can demonstrate that (1) the community is in need of additional housing to prevent a loss of jobs in the area or (2) to house families moving to the area as a result of new employment opportunities. Any kind of evidence of the community's need is acceptable.

Loan guarantee limits. The loan guarantee limit is $10 million without an exception by the Administrator. In order to receive an exception to the $10 million limit, a lender must either document in their written credit analysis or provide a separate letter stating that it will not make the loan and the project will not be completed if the guarantee is not approved. The Agency attempts to provide assistance to as many businesses as possible by requiring an exception by the Administrator to guarantee loans between $10 million and $25 million. Guaranteed loan approval in excess of $25 million up to $40 million rests with the Secretary of Agriculture, whose authority cannot be redelegated.

Interest rate change. A change in the interest rate between the date of issuance of the Conditional Commitment and before the issuance of the Loan Note Guarantee must be requested by the lender and approved by the Agency in writing. The letter typically discusses what the change in the interest rate is and any impact it has on the loan. The potential effect on project feasibility must be reviewed by the Agency.

Credit quality analysis. The lender is primarily responsible for determining the quality of the proposed loan. Lenders typically complete an analysis of all commercial loans for their internal loan committee, but these analyses vary in scope. The Agency requires a complete written analysis, including spreadsheets of the balance sheets and income statements for the 3 previous years (for existing businesses), a pro forma balance sheet projected for loan closing, and 2 years projected yearend balance sheets and income statements, common sized with appropriate ratios and comparisons with industrial standards. The lender's written credit analysis must address the borrower's management, repayment ability including a cash-flow analysis, history of debt repayment, necessity of any debt refinancing, and the credit reports of the borrower, its principals, and any parent, affiliate, or subsidiary. The burden estimate is the average time required for the lender to complete the analysis.

Financial statements. The Agency requires the lender to determine the type and frequency of submission of the financial statements by the borrower. Financial statements must be completed at least annually in accordance with Generally Accepted Accounting Principles (GAAP), except for farmer/rancher guaranteed loans for cooperative stock purchase who may provide financial information in a manner that is generally accepted by commercial agricultural lenders. This is what a lender would typically require on similar non-guaranteed loans, and, lenders often require quarterly statements for new or problem accounts. However, there may be situations for which the lender reporting requirements would be less frequent. In some instances, the Agency may require annual audited financial statements, which may be more than a lender would require. The burden estimate is the time needed by the lender to determine the type and frequency of reporting to require of the borrower.

The specific requirement for borrower financial reporting is established in the loan origination phase, but most of the burden to the public associated with it is covered under the servicing portion of the program regulations, which is 7 CFR 4287-B. Only the time required to establish the requirement is reported here. The information is used by the Agency to monitor the progress of the business and to help to identify potential problems before they become critical, thus helping to keep business failures and Agency losses to a minimum.

Hazard Insurance. Hazard insurance is required on every loan to protect the collateral from fire or other insurable losses. The Agency requires the lender to be named as loss payee. The lender would typically require hazard insurance on non-guaranteed loans. The borrower obtains the insurance, and the lender reviews it for sufficiency.

Life Insurance. Life insurance may be required on key management officials of the business to better insure the success of the business if key management is lost. This is done by insuring the lives of key management, thus providing capital to hire new key management. This is a common practice of lenders, but the Agency may require life insurance when the lender would not. The borrower obtains the insurance, and the lender reviews it for sufficiency.

Flood and other insurance. National flood insurance is required on projects when available. Public liability, business interruption, malpractice, and other insurance appropriate to the borrower's particular business and circumstances may be required. Lenders typically require flood and other insurance on non-guaranteed loans, but there may be situations when it is not recommended by the lender but required by the Agency. The borrower obtains the insurance, and the lender reviews it for sufficiency.

Appraisal reports. The applicant pays for certified appraisers to complete appraisals in accordance with industry standards. Lenders typically require appraisals completed in accordance with industry standard on non-guaranteed loans and they typically require the applicant to pay for them. There may be situations when the Agency requires an appraisal when the lender would not. Appraisals are used to determine the value of borrower assets being offered as collateral to ensure the loan is adequately secured.

Feasibility Studies. They are generally required by the Agency only for a business with no track record or a business that is introducing new ideas or product lines. When required, the study must address the economic, market, technical, financial, and management feasibility of the business. They are used by the lender and Agency to help determine the creditworthiness of the proposal. Lenders sometimes require feasibility studies for loans without a guarantee, but a less comprehensive analysis might satisfy the lender.

Planning and performing development. The lender must ensure the project design uses accepted architectural and engineering practices, conforms to applicable Federal, State, and local codes, and will be completed with available funds. Although construction monitoring is typically contracted out, the lender is ultimately responsible for monitoring construction to ensure the project is completed in accordance with the plans and specifications and keeping the Agency informed. Lenders typically do most of this for non-guaranteed loans. However, some Federal laws do not apply to loans without Federal involvement and the lender would not have to provide reports to the Agency for non-guaranteed loans.

Preapplication requirements. A preapplication is preliminary information used by the Agency to determine preliminary eligibility for program assistance. Preapplications are submitted at the option of the lender and borrower. If the proposal does not appear eligible or feasible, the Agency may discourage the filing of a complete application, thus saving the business time and money. The lender would typically require much of the same documentation for non-guaranteed loans. The following documents comprise the content of a preapplication:

(a) Letter to the Agency - A letter signed by the applicant and the lender containing basic information about the applicant and the loan proposal.

(b) Completed Form 4279-2, "Certification of Non-Relocation and Market Capacity Information Report." See description in "forms" section below.

(c) Financial information - Used by the Agency to determine preliminary creditworthiness of business.

(d) Preliminary business plan, for start-up businesses - Describes the business, its intended market, and other relevant information and varies considerably in scope.

Application Requirements. The applicant provides the balance of the application requirements to the lender, who provides most of the application to the Agency. This section reiterates and lists the information needed by the Agency including completed forms, financial statements, and various other documents used by the lender and Agency to determine program eligibility and creditworthiness of the loan proposal. The burden per response is low because the lender would typically require virtually the same documentation for a non-guaranteed loan, and only the burden in excess of lender requirements is included. The following comprises the content of an application:

(a) Personal credit reports - Used to evaluate the credit history of the owners as an aid in the credit evaluation completed by the Agency and lender. This is typically required by lenders for non-guaranteed loans.

(b) Intergovernmental consultation - The applicant is required to notify the designated State clearinghouse of its proposal. This is to ensure the project is in compliance with State and local development strategies.

(c) Current financial statements and pro forma balance sheet and projections - The applicant must provide these to enable the lender and Agency to determine the financial health of the business and the likelihood it will continue to operate successfully. This is typically requested by lenders for non-guaranteed loans.

(d) Lender's analysis - The lender completes a comprehensive credit analysis that is the lender's justification for making the loan. The Agency relies on this analysis as a basis for approving the request. In most cases, the lender would prepare a loan analysis for its internal loan committee, but possibly not as comprehensive as required by the Agency.

(e) Commercial credit report - The lender provides a credit report on the business and related firms. They provide aids in making a determination concerning the credit worthiness of the applicant. This is typically required by lenders for non-guaranteed loans.

(f) Current personal and corporate financial statements of any guarantors - Used to evaluate the financial strength of the owners to determine if they will be able to inject additional resources into the business if needed. This is typically required by lenders for non-guaranteed loans.

(g) Proposed Loan Agreement - An agreement between the lender and the borrower establishing conditions for the loan such as collateral, repayment schedule, loan purpose, and other conditions. The Agency reviews the proposed document to aid in its loan analysis. Loan Agreements are always required by lenders for non-guaranteed loans, but the Agency may require more covenants than the lender would typically require.

(h) Business plan - When a feasibility study is not required, a business plan is prepared which describes the business and project, management, products and services, use of loan funds, etc. It is similar to a feasibility study and used for similar purposes, but is much less comprehensive and typically prepared by the borrower. This is typically required by lenders for non-guaranteed loans.

(i) 10-K reports - The Agency requests a copy of this report from publicly traded companies. It is prepared for the Securities and Exchange Commission and aids in the lender and Agency loan analysis. This is typically required by lenders for non-guaranteed loans.

(j) Certificate of Need - Obtained by the applicants for health care facilities from the appropriate regulatory authority. A certificate of need provides evidence that the borrower will be able to collect from third party payors which effects project feasibility. This is typically required by lenders for non-guaranteed loans.

(k) Lender certification - A certification by the lender that indicates the lender has completed a comprehensive analysis of the proposal, the applicant is eligible, the loan is for authorized purposes, the collateral is adequate, and the borrower has a reasonable chance of success. The lender would not prepare this if it were not required by the Agency.

Transfer of lender. When the applicant or lender desires to change lenders prior to issuance of the guarantee, the Agency needs information to determine if the applicant is still eligible and the new proposed lender is eligible and capable of making and servicing the proposed loan.

Changes in borrower. When there is a change in the applicant's ownership or organization prior to the issuance of the guarantee, information is needed to determine if the applicant is still eligible for program assistance.

Conditions precedent to issuance of Loan Note Guarantee. This is the final check prior to issuance of the guarantee. It is a comprehensive certification from the lender that the borrower meets all requirements of the Conditional Commitment and other program requirements.

Issuance of Loan Note Guarantee. The lender advises the Agency when it is ready for closing and provides the Agency with the comprehensive certification required by the paragraph just above.

Refusal to execute Loan Note Guarantee. In the very unusual case when the Agency determines it cannot issue the guarantee, it will provide the lender with the reasons. The lender may provide documentation to satisfy the Agency objections.

REPORTING REQUIREMENTS - RURAL DEVELOPMENT (RD) FORMS

Form 4279-1, "Application for Loan Guarantee (Business and Industry and Section 9006 Program)" - The information collected on the form is used by the Agency to determine applicant eligibility for program assistance and to provide financial and other data about the applicant and lender. The form contains two parts. The borrower completes Part A, and the lender completes Part B.

Form 4279-1A, "Application for Loan Guarantee (Rural Business-Cooperative Service)" - This form is used to file applications of up to $600,000, to determine applicant eligibility for program assistance, and to provide financial and other data about the applicant and lender. The form contains two parts. The borrower completes Part I, the lender completes Part II, and the Agency has sections to evaluate and comment throughout the document.

Form 4279-2, "Certification of Non-Relocation and Market and Capacity Report" - This form is completed by the applicant and used by the Agency to obtain Department of Labor clearance on loan requests in excess of $1 million which will increase direct employment by more than 50 employees. The information is used to determine if competing businesses would be adversely impacted by the Federally guaranteed loan.

Form 4279-3, "Conditional Commitment" - This form is used by the Agency to provide notice to the lender and lender acceptance that the guarantee request is approved subject to the conditions established by the Agency and listed on the form.

Form 4279-4, "Lender's Agreement" - This form is the signed agreement between USDA and the lender setting forth the lender's loan responsibilities. Each lender will execute the form once. It will then apply to all B&I, REAP and BAP loans the lender makes thereafter.

Form 4279-6, "Assignment Guarantee Agreement (Business and Industry and Section 9006 Program)" - This form is the signed agreement among the Agency, lender, and holder, setting forth the terms and conditions of an assignment of all or a portion of the guaranteed portion of a loan.

Form 4279-14, "Unconditional Guarantee Business and Industry Guaranteed Loan Program" - This form is used to obtain an unconditional guarantee from an individual or corporate entity that owns more than 20 percent interest in the borrower. This form is in addition to any guarantee forms used by lenders. The Agency is establishing uniformity in obtaining and collecting against guarantees and will treat all guarantors consistently and rectify any ambiguities regarding its ability to refer delinquent debts to the Treasury for collection under the Debt Collection Improvement Act.

<u>Form RD 1940-20, "Request for Environmental Information</u>" (OMB No. 0575-0094) - The burden for this form has been accounted for in OMB No. 0575-0094. The information collected from the applicant is used by the Agency in preparing the environmental assessment. It is needed only for specific loan making or servicing actions. No requirement in this section imposes a burden that is not specified in the specific program regulation.

<u>Form RD 1980-19, "Guaranteed Loan Closing Report</u>" (OMB No. 0575-0137) - The burden for this form has been accounted for in OMB No. 0575-0137. The information is used by the Agency to establish the account in its accounting system. The Agency prepares the form. The lender verifies it for accuracy.

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 Agency has automated various forms used to apply for loan guarantees, and fillable forms are available on the USDA Service Center and Rural Development websites. Lenders may complete the automated forms and submit hard copies of the forms with original signatures to the Agency. Loan application forms are not currently submitted electronically due to security concerns and the lack of electronic signature capability. However, some application materials are accepted electronically, such as the preapplication letter, lender's analysis, financial statement spreads, credit reports, proposed loan agreements, and business plans. The Agency is currently working on the e-Gov initiative that will eventually be capable of receiving applications and other forms electronically. A concern that will need to be addressed is how to accept appraisals and feasibility studies electronically while ensuring validity and environmental information that may contain several different types of maps such as site, flood, and wetlands maps. Electronic submission of paperwork will not reduce burden to applicants as it is the same paperwork that must be completed regardless of the mode of submission. In fact, the electronic scanning of appraisals and feasibility studies could actually increase burden.

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.** The Agency communicates with other institutions involved with business development for the purpose of sharing information and coordinating respective activities. When similar information is identified, action is taken to avoid duplication.

5. **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.** Only the minimum information needed to determine program eligibility and the creditworthiness of a credit proposal is requested. Lenders making loans without guarantees typically

require as much or almost as much information from a business applicant. The information required of lenders is needed to determine lender and borrower eligibility and creditworthiness.

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.** The information needed for loan approval is typically needed only once for each application. With less information, the Agency would be more likely to guarantee substandard loans, thus increasing Agency losses.

7. **Explain any special circumstances that would cause an information collection to be conducted in a manner:** There are no special circumstances that would cause information collection to be conducted in any manner described in (a) through (h) below:

    (a) Requiring respondents to report information more than quarterly.

    (b) Requiring written responses in less than 30 days.

    (c) Requiring more than an original and two copies.

    (d) Requiring respondents to retain records for more that 3 years.

    (e) Not utilizing statistical sampling.

    (f) Requiring use of statistical sampling which has not been reviewed and approved by OMB.

    (g) Requiring a pledge of confidentiality.

    (h) Requiring submission of proprietary trade secrets.

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 record keeping, disclosure, reporting format (if any), and on data elements to be recorded, disclosed, or reported.** In accordance with the Paperwork Reduction Act of 1995, the agency published a Notice in the Federal Register on March 25, 2016 [Vol. 81, No. 58, page number 16136]. No comments were received.

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    (800) 386-3722

b. Stephen F. Decker
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c. Bob Coleman
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These contacts are the most recent the Agency has consulted with. The Agency doesn't have new contact names or views because we are anticipating our new rule will immediately make this one obsolete. The new rule has its own burden.

9. **Explain any decision to provide any payment or gift to respondents, other than renumeration of contractors or grantees.** No payments or gifts are provided to respondents.

10. **Describe any assurance of confidentiality provided to respondents and the basis for the assurance in statute, regulation, or Agency policy.** Confidentiality is not assured. Requests for release of records and information are processed in accordance with the Privacy Act of 1974.

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 collection of any information that would be considered sensitive in nature or commonly considered private.

12. **Provide estimates of the hour burden of the collection of information.** This submission is for 450 respondents with 5,384 responses and 14,730 burden hours. The attached worksheet describes the burden for each form utilized and each section of the regulation that impacts the public, as well as the annualized total. There is no contracting out or paying outside parties for information collection. The worksheet is based on the Agency receiving 75 preapplications and 450 applications for B&I, from which 413 loans will be made. Many of the requirements will not be needed from every applicant. Requirements are based on the type of applicant and in what type of business the applicant is engaged. The application information that is needed will be needed only once, while servicing type information may be needed annually, for the life of the loan. Depending on the complexity of the loan and skills of the loan applicant, the amount of information actually prepared by the applicant varies considerably. It can range from near zero when the loan applicant hires a professional to put the application together, to virtually all of it. We computed the hours as if the Agency's customer completed all the information collection. As discussed earlier, this package considers only the information

the Agency requires in excess of what a lender would typically require of a business. The response time per response ranges from 30 minutes for simple documents to 24 hours for a feasibility study.

Most of the respondents are relatively highly paid professionals including bank officers, accountants, attorneys, certified appraisers, environmental and other consultants, insurance providers, and contractors. The annualized cost to the public is $530,273.

13. **Provide an estimate of the total annual cost burden to respondents or record keepers resulting from the collection of information.** Any capital and start-up costs are customary and usual business practices, and therefore, not included in this package.

14. **Provide estimates of annualized cost to the Federal Government.** The annual cost to the Federal Government to collect and evaluate this information is estimated to be about $751,262 per fiscal year (see attached spreadsheet). Most of the review work is completed by GS-11 & 12 State Loan Specialists and GS-13 State Program Directors, with GS-7 & 8 Loan Technicians doing most of the computer data entry and typing. Accordingly, the average rate was determined to be $46.40 per hour. The hourly rate was determined by using the GS Pay Scale for 2016. The hours were computed by estimating the average time it takes to review a preapplication package including Department of Labor clearance when required; an application package including the lender analysis and conducting negotiations and conferences with lender, a site visit, and environmental assessment; assigning of priority points; approving and obligating the loan, including preparing the Conditional Commitment; and issuing the Loan Note Guarantee including reviewing the lender’s certification and comparing it against conditions of the loan and program regulations.

15. **Explain the reasons for any program changes or adjustments reported in items 13 or 14 of the OMB Form 83-1.** This package reflects changes in the burden from the previous submittal. The hourly wage class for respondents was adjusted from $70 per hour to $36 per hour to align with current information from the Bureau of Labor and Statistics. The hourly rate for Federal employees was adjusted from $27 per hour to $46.40 per hour to reflect pay increases effective 2016. There was a decrease in the overall number of respondents due to an increase in the upfront guarantee fee in fiscal year (FY) 2012, followed by an increase in annual renewal fees in FY 2013. Adjustments are made because the number of respondents decreased. The number of respondents decreased from 600 to 450 for a change of 150 fewer respondents. The burden hours increased from 13,679 to 14,730 for 1,051 more burden hours. The number of responses decreased from 5,570 to 5,384, a decrease of 186. The number of applications was estimated to be 450 based upon approximately 357 loans guaranteed in FY 2013, 349 loans in FY 2014, and 369 loans in FY 2015.

16. **For collection of information whose results will be published, outline plans for tabulation and publication.** The results of this collection of information will not 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.** Approval not to display expiration dates on currently used form is being sought.

18. **Explain each exception to the certification statement identified in item 19 on OMB 83-1.** There are no exceptions to the Certification.

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?** Recipients of B&I loan assistance are rural businesses, but typically are not agricultural. Consequently, very little of the information collected for this program would be useful in the Service Center Initiative. The information is used only for administering the B&I program.