

2018 SUPPORTING STATEMENT
7 CFR Part 1902-A, Supervised Bank Accounts
OMB Number 0575-0158

A. Justification

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

The Rural Business Service (RBS) makes loans to nonprofit entities, who will, in turn, provide financial assistance to rural businesses to improve business, industry, and employment opportunities as well as provide a diversification of the economy in the rural areas. The Community Economic Development Act of 1981 (42 U.S.C. 9812(a), section 623(a) provides for this function. RBS will only utilize one aspect of this package which is the RD Form 402-1, Deposit Agreement.

The Rural Housing Service (RHS) is the credit agency for agriculture and rural development in the U.S. Department of Agriculture (USDA). RHS is the lender of last resort, providing financial support for housing in rural America. The legislative authority for requiring the use of supervised accounts is contained in Section 339 of the Consolidate Farm and Rural Development Act (CON ACT), as amended (7U.S.C. 1989), and Section 510 of the Housing Act of 1949 (Housing Act), as amended (42 U.S.C. 1480).

This regulation prescribes the policies and responsibilities for the use of supervised accounts. In carrying out its mission as a supervised credit Agency, this regulation authorizes the use of supervised accounts for the disbursement of funds. The supervised accounts are used on a comparatively limited basis. The use may be necessitated to disburse Government funds consistent with the various stages of any development (construction) work actually achieved. Another use is for depositing multi-housing reserve account funds in a manner requiring Agency co-signature for withdrawals, to ensure Government security is adequately protected against fraud, waste, and abuse. A supervised account is also used to provide credit counseling and oversight to those being assisted who demonstrate an inability to handle their financial affairs responsibly.

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.

The purpose of supervised accounts is to reduce the potential for fraud, waste, and abuse. Supervised accounts are used to temporarily store funds until agreements entered into can be finalized, such as when loan or grant funds must be held until conditions established for release are met, or when borrower funds must be held until conditions for action such as a partial release of security or a consent to sale are met. Supervised accounts are also

used for multi-housing reserve account to subject these permanent funds to co-signature by the Agency before capital improvements or other reserve fund usage is authorized. In addition, supervised accounts are used as a servicing tool, for short periods of time in unusual circumstances, to provide financial counseling to those having difficulty upholding their responsibilities. Often these are borrowers who have entered into loan servicing or workout plans.

The consequence to Federal program and policy activities if the collection of the described information was not conducted would be detrimental to both the Government and to borrowers. Removing a means to ensure loan and grant funds meet the conditions for disbursement before release could provide greater opportunities for fraud, waste and abuse. Eliminating the use of supervised accounts for a financial counseling tool would be detrimental to both the Government and the borrower, as the prospect for monetary default would likely be greater without this servicing tool. Also, permitting reserve accounts to be used without requiring Agency co-signature on withdrawals could provide greater opportunities for fraud, waste and abuse.

The Office of the Inspector General (OIG) has issued audit warnings and report findings highlighting that reserve funds are being withdrawn without Agency approval and are being used for purposes which are not consistent with program objectives. Subjecting reserve accounts to countersignature should reduce the level of fraud, waste, and abuse occurring in the Agency's multi-housing programs.

Specifically, the burden to be cleared with this docket is as follows:

1902.1(I)(j). Deposit Agreement, RD Form 402-1

RHS - A deposit agreement will be typically used to hold funds in a non-interest bearing account for a short period of time. This agreement may be used for any program administered by the Agency which may require the holding of funds for very short periods of time in a non-interest bearing account.

RBS - This form is prescribed by the Agency for use in addition to normal security documents. A first lien interest in the intermediary's revolving fund account will be accomplished by the use of this form or similar form developed by the State Regional Office of the General Counsel. RBS only utilizes the RD Form 402-1 or similar, in this package.

1901.1(k). Interest Bearing Deposit Agreement

A deposit agreement will be typically used to hold funds in an interest bearing account for relatively short periods of time. This agreement may be used for any program administered by the Agency which may require the holding of funds in an interest bearing account for a temporary period of time.

1902.4. Co-signature MFH Withdrawals

Where multi-housing accounts are involved, it will be necessary to subject the withdrawal of reserve account funds to co-signature by an authorized RHS Official. Reserve accounts must therefore be established and used in the manner set out in Agency regulations.

1902.7. Collateral Pledge

Collateral pledges will be required in some instances under Agency regulations. Collateral pledges are primarily required when funds are over the Federal insurance thresholds (i.e. over \$100,000).

1902.14. Reconciliation of Accounts

A reconciliation of accounts is required under some circumstances to verify account balances and fund usage. This is done primarily when concerns arise over the accuracy of borrower records or when unusual servicing efforts are warranted, such as a need to confirm whether the accounts were used as intended for authorized purposes.

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 burden associated with the use of supervised accounts is relatively small; however, it does presently require signatures to be manually executed and presented in person or by mail. Presently, the electronic transmission of signatures is not being accepted for Rural Development, in part because the quality of the transmission under existing technology is not as good as original signatures. The volume of activity is also low enough that acceptance of preauthorized signatures for permitting deposits and withdrawals by designated parties via telephone or electronic transmission (i.e., telefax) is not warranted.

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 frequency of activity is expected to be low; therefore, there is little opportunity to curtail duplicative reporting burden because there will be little duplication in the information collected. Furthermore, Agency personnel will be the ones primarily preparing the forms, relegating the involvement of the public to primarily a reading of the instruments involved and executing a signature on the instruments.

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 collected will often be obtained from small businesses or small nonprofit entities. The forms are considered to contain that information essential to establish supervised accounts. No automation requirements are being imposed, and the data solicited has been reviewed by the Agency to ensure that only essential information needs are requested.

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.

Collection less frequently, when used in conjunction as conditions for an approval action, would remove an effective deterrent against abuse. Requiring disbursement of loan or grant funds needed for construction after construction inspections is a prudent Government lending practice. The Government will often order funds for delivery in anticipation that construction schedules and problem resolution schedules will be met. When unexpected problems arise in meeting agreed upon time frames, temporary placement of funds in a supervised account is a prudent Government lending practice.

Collection less frequently, when used in conjunction as a financial counseling tool, may result in a slight increase in delinquencies. Financial counseling is a prudent lending practice of Federal agencies charged with providing supervised credit. However, it should be noted that this tool is sparingly used for those cases when financial counseling will be received in a cooperative atmosphere to overcome difficulties.

Collection less frequently, when used in conjunction with reserve account actions, would not serve as a sufficiently effective deterrent to prevent abuse. Recent OIG audits indicate that reserve fund abuses are sufficiently common to warrant modification of existing Agency policies. Examples involving millions of dollars which were improperly withdrawn from reserve accounts are used for no-project purposes were cited by the OIG. As a result of the findings, the Agency agreed to adopt policy aims at reducing reserve fund abuses.

The Agency considered the option of requiring co-signatures on reserve account withdrawals only after a borrower first evidenced an inability to adhere to the responsibilities agreed upon as a condition for the loan (i.e., a borrower fails to report financial information need to determine if regulations governing reserve account were broken, uses reserve funds for unauthorized purposes, fails to obtain prior Agency consent for the withdrawal of reserve account funds, etc.). The Agency did not adopt this option because policies aimed at preventing abuses were judged more effective than relying on policies requiring Agency detection of abuses and the use of scarce Agency resources in attempting to recover misused funds.

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.

No quarterly reports are required.

- b. Requiring written responses in less than 30 days.

No written response is due in less than 30 days.

- c. Requiring more than an original and two copies.

The public is not required to provide two or more copies of information.

- d. Requiring respondents to retain records for more than 3 years.

The public is not required to retain records for more than 3 years.

- e. Not utilizing statistical sampling.

Sampling is not used because the information collected is unique to borrower circumstances and is not standard. The information required describes changes in borrower operations and is of a legal nature. Sampling is not appropriate in such circumstances.

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

There is no required statistical sampling; therefore, there is no deviation from any approved or reviewed OMB sampling method.

- g. Requiring a pledge of confidentiality.

There is no required pledge of confidentiality.

- h. Requiring submission of proprietary trade secrets.

There is no required submission of proprietary trade secrets.

There are no special circumstances causing any information collection to be conducted in a manner warranting an exception to the standard reporting requirement guidelines.

8. If applicable, identify the date and page number of publication in the Federal Register of the agency's notice soliciting comments on the information collection. Summarize public comments received and describe actions taken by the agency in response to these comments. 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.

A Federal Register Notice was published on September 20, 2017 [Vol. 82 No. 181 Pg. 43933.] No comments were received.

Interviews were conducted with the following:

1. Owner/Management
Huff and Sons Construction Company
2. Owner
Hamilton Corporation
3. Accounting
Wynnefield Properties, Inc.

All of the consultants stated they found the collection of information to not be excessively burdensome and on par with other collections of information.

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

No payment 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.

The Agency is not providing any assurance of confidentiality in the regulation. All information solicited as a result of this regulation is subject to existing Agency policies governing the collection and disclosure of information. These procedures are established in Agency regulations published at 7 CFR Part 2015, Subpart E, and 7 CFR Part 2018, Subpart F.

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.

This regulation does not solicit information on sensitive issues.

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

This submission is for 15,000 respondents, 60,292 responses and 26,169 burden hours. The estimated cost to the public for this regulation is \$891,313. The Agency estimated the average salary of \$25.00 per hour, plus 36.25% for benefits and overhead for a total of \$34.06, based on information from various consultants. See attached spreadsheet.

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

There are no start-up costs involved.

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

The estimated annual cost to the Federal Government associated with this regulation is \$119,213. The annualized cost estimates the time spent per year by staff in overseeing the regulatory issuance, administration, and printing of forms needed to oversee the regulation by headquarters personnel is approximately 190 hours. The average salary is that of a GS 10 step 5 rounded to the nearest whole dollar. Generally, GS9 and 11 employees process the information. (Amounts based on the 2017 OPM base salary)

Position	No. of People	Grade	Salary	Time	Cost	Benefits and Overhead (36.25%)
National Office Loan Specialist	1	13/5	107,435	0.08	8,595	11,710
Servicing Loan Specialist	230	10/5	68,611	0.005	78,902	107,503
						119,213

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

There was no change in the number of responses or burden hours due to no changes in program implementation or funding since the last approved paperwork burden package.

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

The Agency does not plan to publish information collected for statistical use.

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.

These forms are used in other Rural Development information collections; therefore, it is not practical to include an OMB expiration date because of the different expiration dates for each collection. RD is seeking approval to not display the OMB expiration date on these forms.

18. Explain each exception to the certification statement identified in item 19 on OMB 83-1.

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?

The information solicited is unique and is needed by the Agency to answer a borrower initiated request for a servicing action needed to change existing agreements with the Agency such that the borrower may improve operations. The Agency supports the service center initiative efforts of the Federal government. Most Agency offices are co-located with other federal agencies providing similar services to promote the one stop shopping concept to ensure services are efficient, effective, and convenient to the public.