

2018 SUPPORTING STATEMENT

7 CFR Part 1980-E
Business and Industrial Loan Program
OMB No. 0570-0014

- 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, including pollution abatement and control. This purpose is achieved through bolstering the existing private credit structure by making direct loans, thereby providing lasting community benefits. The B&I program is administered by the Agency through Rural Development State and sub-State Offices serving the State.

All the reporting and recordkeeping burden estimates for making and servicing B&I guaranteed loans have been moved to the B&I Guaranteed Loan Program regulations (7 CFR 4279-A and B and 4287-B). 7 CFR 1980-E, in conjunction with 7 CFR 1942-A and other regulations, is currently used only for making B&I direct loans. 7 CFR 1951-E is used for servicing B&I direct and community facility loans. Consequently, only a fraction of the total reporting burden for making and servicing B&I direct loans is reflected in this document.

The B&I Direct Loan Program was last funded in fiscal year (FY) 2001. The likelihood of funding in future years is not known. However, because this regulation would be needed to process B&I direct loans should the Program be funded in the future, the Agency felt it should be prepared by extending the clearance of this regulation. The burden hours are based on the program not being funded. The regulation stays on the books because there is still a direct loan portfolio outstanding, even though new loans are not being made. The only incremental paperwork burden in the conforming amendments to 1980 relates to new loans being made, and as a practical result there is no new burden because no new direct loans are being made, nor are they expected to be made.

- 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. Specifically, the burden to be cleared under this regulation is as follows:**

REPORTING REQUIREMENTS - NON FORMS

Test for Credit Elsewhere. Not being able to obtain credit from other sources is a statutory requirement. The applicant is required to certify to this effect. Used by the Agency to help determine program eligibility.

Feasibility Study. Provided by the applicant with the application. It addresses the economic, market, technical, financial, and management feasibility of the proposal. Used by the Agency to help determine the creditworthiness of the proposal.

Personal and Corporate Guarantees. The document is prepared by the Agency and executed by the applicant at closing. Used as evidence of the additional collateral which protects the Government's financial interest.

Periodic Financial Statements. Certified Public Accountant completed financial statements are provided to the Agency by the borrower at least annually. More frequent, internally completed statements may be required in certain situations. Used by the Agency to monitor the progress of the business and to help identify potential problems before they become critical, thus helping to keep business failures and Agency losses to a minimum.

Hazard Insurance. The Agency requires the borrower to provide evidence of appropriate insurance coverage. Used by the Agency to ensure that Agency collateral and borrower assets are protected against loss.

Life and Worker's Compensation Insurance. Life insurance may be required on key management officials. Borrower must provide evidence of its existence, when required. Used by the Agency to better insure the success of a business by insuring management succession when key management is lost. Worker's compensation insurance is required in accordance with State law.

Appraisal Reports. Applicant selects and pays certified appraiser to complete appraisal and submit to the Agency. Used to determine the value of borrower assets being offered as collateral to ensure the proposed loan is adequately secured.

Displaced Farmer Certification. The applicant certifies compliance in writing. Used by the Agency to help determine loan priority.

Preapplication Requirements. These are optional. The preapplication information is used by the Agency to make a preliminary decision concerning the applicant's eligibility for program assistance utilizing information readily available to the applicant. The applicant may skip the preapplication phase and submit a full application if it chooses to do so.

- (1) Letter prepared by the applicant. Provides the Agency with basic information about the applicant and the loan proposal.

- (2) Certificate of Non-Relocation. Reported in 7 CFR 4279-A and B and 4287-B.
- (3) Statement of Personal History. Provides the Agency with information about the applicant.
- (4) A record of pending regulatory or legal action against the applicant. Used by the Agency to determine the potential adverse impact any legal action would have on the proposal.
- (5) Current financial information on the applicant business. Provides the Agency with the current financial condition of the applicant.
- (6) Projected financial information. Basic information used by the Agency to determine if the applicant is likely to be determined eligible for program assistance.
- (7) Sales projections. Used in conjunction with other projections to determine the creditworthiness of the proposal.
- (8) Intergovernmental consultation. Used to determine if the proposed development is in line with local and other planning strategies.

Application Requirements. The applicant provides the balance of the application requirements to the Agency. The information is used by the Agency to determine program eligibility and creditworthiness of the proposal. The application requirements are broken down below.

- (1) Form RD 449-1, "Application for Loan and Guarantee." See reporting requirements for forms.
- (2) Form RD 449-2, "Statement of Collateral." See reporting requirements for forms.
- (3) Environmental review documentation. As required in accordance with 7 CFR part 1970
- (4) Architectural or engineering plans. Used by the Agency to determine if the proposal meets accessibility and other code requirements. And, because the Agency will monitor and inspect construction, used to assure construction progresses according to plans.
- (5) Cost estimates. Used by the Agency to determine if funds will be adequate to cover planned expenses.
- (6) Appraisal reports. Used by the Agency to determine the value of assets offered as collateral. The applicant is typically required to provide appraisals, completed by qualified independent appraisers.

- (7) Projected financial statements for existing businesses. 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. Typically required by lenders for non-guaranteed loans.
- (8) Projected financial information for new businesses. Much of the same information required from existing businesses, with some additional information about start-up costs, etc.
- (9) Credit reports. Used to evaluate the credit history of the business or the owners as an aid in the credit evaluation. The Agency will supply credit reports on the applicant business, but may require the applicant to provide credit reports for individuals when not available through a government contractor.
- (10) Copy of building permits. Used by the Agency to assure that all permits have been obtained.
- (11) Financial statements for personal and corporate 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 and to provide a measure of comfort. Typically required by lenders for non-guaranteed loans.
- (12) Loan Agreement. Not needed from applicant for a direct loan.
- (13) Feasibility study. See requirements reported above.
- (14) Form 10-K, "Annual Report." 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. Typically required by lenders for non-guaranteed loans.

Certificate of Need. Obtained by the applicant from the appropriate regulatory authority when a loan request is for a health care facility. Used as evidence that the borrower will be able to collect from third party payors, which has a significant effect on the project feasibility.

Change of Conditions. An applicant is requested to modify the Agency established conditions of loan closing, usually in the form of a letter. Used by the Agency to determine if the Agency will agree to the change.

Borrower Visits. Agency inspection of the business premises and books to determine the condition of loan collateral and the business. Potential problems may be identified before they become critical, thus helping to keep business failures and Agency losses to a minimum. Form 4279-15, "Business & Industry Visit Review Report (Field Visit Review)," is used to complete the visit. There are approximately 16 B&I direct loan

borrowers outstanding and each borrower should be visited at least once a year. This form has been previously cleared under the burden package for RD Instruction 4287-B.

Meetings to Resolve Problems and Delinquencies. Meetings are held with the borrower when needed to resolve problems. They are usually initiated by the Agency and intended to keep business failures and Agency losses to a minimum.

REPORTING REQUIREMENTS - FORMS

Form RD 449-1, Application for Loan and Guarantee. Used by the Agency to determine applicant eligibility for program assistance and to provide financial and other data about the applicant and lender. Because we expect applicants for direct loan assistance to use the application form designed for guaranteed loan assistance (Form RD 4279-1), we left the estimated number of respondents at 0. Estimate 0 respondents, 0 man-hours, total cost of \$0.

Form RD 449-2, Statement of Collateral. Used by the Agency to ascertain the type of collateral being offered and to estimate its value. Estimate 0 respondents, 0 man-hours, total cost of \$0.

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.** As a part of the e-gov initiative, all forms have been automated so they are fillable and downloadable. There are no templates for non-form based reporting requirements but documents may be submitted scanned and emailed to the Agency.
4. **Describe efforts to identify duplication. Show specifically why any similar information already available cannot be used or modified for the purposes described in Item 2 above.** The Agency frequently 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-I), describe any methods used to minimize burden.** Only the minimum information needed to determine program eligibility and the creditworthiness of a business or a credit proposal is requested. If a private lender were making the loan, it would likely require virtually the same information from the business applicant. 85% of the applicants classify as 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.** Most of the information needed for a loan approval is requested only once. With less information, the Agency would be more likely to make substandard loans, thus increasing Agency losses. The Agency monitors the progress of the business through the analysis of annual borrower financial statements and visits to the borrower. This helps to identify potential problems before they become critical, thus helping to keep business failures and Agency losses to a minimum.
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.**
 - 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 than 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.**

There are no special circumstances that would cause information collection to be conducted in any manner described in (a) through (h) above.

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.** As required by the Paperwork Reduction Act of 1995, a Notice was published on May 14, 2018, Volume number 83, Number 93, page number 22244. No comments were received.

As part of the Agency's internal control measures, it conducts assessments of its loan programs by interviewing existing borrowers and Agency field personnel. Many topics are discussed during these interviews, including reporting burden estimates and costs. Because the requirements for guaranteed loans are similar, we also discuss these issues with lenders that have loans guaranteed by the Agency. We ask the interviewees if they feel any of the Agency imposed requirements are excessive or could be handled

differently, and incorporate their suggestions into program regulations. Three of the existing borrowers interviewed at length were:

1. Brideview Capital Solutions
Controller and VP USDA Servicing
770-635-1775
1175 Corporate Woods Parkway Vernon Hills, IL 60061
2. Stanford Foods, LLC
Owner
601-226-0061
1275 Main St., Suite 5 Grenada, MS 38901
3. of J.J. Ferguson Sand and Gravel, Inc.
Owner
662-453-5451
4510 Highway 82 E St. Greenwood, MS 38930

9. **Explain any decision to provide any payment or gift to respondents, other than remuneration 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 16 respondents with 69 responses and 228 burden hours.

The hourly wage was calculated using the BLS May 2017 National Occupational Employment and Wage Estimates for Business and Financial Operations occupations 13-0000. An additional 31% was added to account for benefits and overhead for a total of \$48/hr.

See attached spreadsheet.

13. **Provide an estimate of the total annual cost burden to respondents or record keepers resulting from the collection of information.** There are no capital startup or operation and maintenance costs.

- 14. Provide estimates of annualized cost to the Federal Government.** This regulation is no longer used for guaranteed loanmaking, but there are some costs for loan servicing, i.e., collection of periodic financial statements, verification of insurance, and borrower visits and meetings. These federal government costs are estimated to be \$3,696 per year, based on 16 loans, 7 hours of loan servicing per loan, and \$33/hr for government staff time. Hourly wage for government staff is an average of GS-8 and GS-9 hourly rates plus 31% to account for benefits and overhead cost.
- 15. Explain the reasons for any program changes or adjustments reported in items 13 or 14 of the OMB Form 83-I.** The number of respondents decreased from 40 to 16. There is a decrease in the number of responses by 120 to 69 and a 372 decrease in burden hours to 228. The numbers of burden hours and associated costs have changed principally as a result of a revised estimate of 16 direct loans in the program portfolio, a decrease from the previous estimate of 40 direct loans. Also, as a result of the current rate of information collection, the estimated number of borrower visits has decreased from 40 to 16, and the estimated number of financial statements has decreased from 40 to 16.
- 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.** We are requesting not to display expiration dates because several forms are used in other PRA packages and having expirations dates would cause confusion as there be different dates for each package the form is covered under.
- 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?** Recipients of B&I loan assistance are rural businesses, but typically are not agricultural. Consequently, little of the information collected for this program would be useful in the Service Center Initiative.