OneRD Guaranteed Loan Program
Guaranteed Business & Industry Guaranteed Loans
Lender Checklist

Effective October 1, 2020, the OneRD Guarantee Loan Initiative consolidated Guaranteed Business and Industry Loan Program regulations with three other USDA, Rural Development guaranteed loan programs. One of the major changes is the option to calculate equity on either a balance sheet method or project equity method (see the chart on page 6 of this checklist).

The following checklist is specific to the Guaranteed B&I Loan Program. However, lenders must also be familiar with the program regulation found at 7 CFR Part 5001. It is available at the OneRD Guarantee Loan website: https://www.rd.usda.gov/onerdguarantee. This website also has a host of other helpful information for lenders. *This checklist it not all inclusive and Lenders are ultimately responsible for being aware of the OneRD Guarantee regulatory requirements.*

Preliminary Eligibility Review (§5001.302)

Lenders have the option of requesting a preliminary eligibility review. The information may be submitted in narrative format or by submitting the Lender's preliminary credit analysis or preliminary credit memo. Regardless of format, Lenders must provide the following information:

☐	Name of the proposed borrower (and co-borrower, as applicable), organization type, address, contact person, phone number, and e-mail address
☐	Name of the proposed lender, address, contact person, telephone number, and e-mail address
☐	Amount of guaranteed loan request, percent of guarantee requested, proposed rates and terms of the guaranteed loan, amount and source of equity, and sources of other funding.
☐	Description of collateral with estimated values
☐	Identity of personal and commercial guarantors
☐	Brief description of the project, its location, products and/or services provided, service area, availability of raw materials and supplies, as applicable.
☐	Number of current employees, number of new employees, information about wages or salaries to be paid, employer provided health care coverage, etc.
☐	Sufficient information and documentation to enable the Agency to assess, the borrower, lender, and project eligibility including summaries or spreadsheets of financial statements or audits, relationships and identify of affiliates, description of the organization including organizational charts, description of existing debt instruments, etc.
☐	Preliminary information to assist the Agency in determining the level of environmental review necessary for the project, including but not limited to location maps, size of site to be developed, any known controversy, etc.

Based on the information submitted, the Agency will make a written informal assessment of the eligibility of the lender, borrower, and project. This assessment is solely advisory in nature, does not obligate the Agency to approve a guarantee request and is not to be considered a favorable or adverse decision by the Agency.

Complete application for loan guarantee (§5001.303 and §5001.306)

(a) Complete applications. The Agency will accept applications on a continuous basis. For each loan guarantee request, Lenders must submit complete applications in order to be considered for loan guarantees. Lenders are encouraged to submit a complete application in a single package; however, the Agency may accept the environmental information required by the Agency and initiate and complete its environmental reviews in advance of receiving a complete application. If an application is incomplete, the Agency will notify the lender in writing of the items necessary to address the incomplete application. Upon receipt of a complete application, the Agency will complete its evaluation.

(b) Required content. Lenders must provide an analysis of the scope of the project in relation to the borrower's overall operations. The application and lender's analysis should be supported by adequate documentation as applicable to the project and as listed in Provisional content. The Agency reserves the right to request additional documentation to support the funding request. All complete applications must contain at a minimum:

☐	Form RD 5001-1 "Application for Loan Guarantee"	
☐	Form AD-3030 "Representations Regarding Felony Conviction and Tax Delinquent Status for Corporate Applicants" if **LENDER** is organized as a **corporation**	
☐	Form AD-3030 "Representations Regarding Felony Conviction and Tax Delinquent Status for Corporate Applicants" if **BORROWER** is organized as a **corporation**	
☐	Lender's written credit evaluation conforming to §5001.202 (see pages 7-9 as well as the attached RD Staff Instructions 5001, §5001.202) and consistent with generally accepted and prudent lending practices for commercial lending and consistent with the Lender's own policies, procedures, and lending practices. Applications with affiliated entities must include a global credit evaluation and if applicable, global historical and projected debt service coverage analysis. The credit factors to be addressed are:	
	☐	Character – See §5001.202(b)(1)
	☐	Capacity – See §5001.202(b)(2)
	☐	Capital – See §5001.202(b)(3)
	☐	Collateral – See §5001.202(b)(4)
	☐	Conditions – See §5001.202(b)(5)
	☐	Content – See §5001.202(b)(6)
☐	Environmental information required by the Agency to conduct its environmental review – See §5001.207. Contact the Agency early in the process to discuss environmental requirements for the specific loan. For all loans secured by real estate the following are required:	
	☐	Phase I Environmental Site Assessment
	☐	FEMA Form 086-0-32 "Standard Flood Hazard Determination Form"
	☐	Environmental Report or Environmental Assessment per RD Instruction 1970, based on Agency determination

☐	Required financial statements including:	
	☐	Current balance sheet and year-to-date income statements of the Borrower, dated within 90 days of submission of the complete application.
	☐	Current balance sheet and year-to-date income statements of any commercial guarantor(s), dated within 90 days of submission of the complete application.
	☐	Current personal financial statement of any individual guarantors, dated within 90 days of submission of the complete application.
	☐	Historical balance sheets and income statements of the borrower for the lesser of the last three fiscal years or all years of operation. Include cash flow statements if available.
	☐	Historical balance sheets and income statements of any commercial guarantor(s) for the lesser of the last three fiscal years or all years of operation. Include cash flow statements if available.
	☐	Projected balance sheets, income statements, and cash flow statements/ cash flow budgets or a financial model starting from the current financial statements through a minimum of two years of the project performing at full operational capacity or stable operations.
	☐	Financial projections must be supported by a list of assumptions showing the basis for the projections.
	☐	A pro forma or projected balance sheet as of the date of loan closing that reflects any new assets acquired and/or new debt including the new guaranteed loan.
	☐	Current financial statements of affiliates.
		The Agency may request additional financial statements, financial models, cash flow information, updated financial statements, and other related financial information to determine the financial feasibility of a project and evaluate the credit underwriting of the borrower, its affiliates, and any guarantors.
☐	Current Credit Reports or equivalent on the following:	
	☐	Borrower
	☐	Personal or commercial/corporate guarantors
	☐	Any person or entity owning greater than a 20 percent or more interest in the borrower or controls the borrower
☐	A draft loan agreement for the guaranteed loan that addresses each of the following:	
	☐	Repayment term and amortization provisions of the guaranteed loan
	☐	Description of real property collateral, list of other collateral and identification of the lender’s lien priority in the collateral
	☐	A list of persons and entities guaranteeing payment of the guaranteed loan and their percentage of guarantee;
	☐	Type and frequency of borrower financial statements to be required for the duration of the guaranteed loan.

	☐	Type and frequency of guarantor financial statements to be required for the duration of the guaranteed loan (*guarantor financial statements must be updated at least annually*).
	☐	Prohibition against borrower assuming liabilities or obligations of others
	☐	Limitations on borrower dividend payments or distributions and compensation of officers, owners and members of borrower.
	☐	Limitations on the purchase and sale of equipment and other fixed assets
	☐	Restrictions concerning mergers, consolidations, or other circumstances including significant management changes and a limitation on selling the business, project, or guarantee loan collateral without the concurrence of the lender
	☐	Maximum debt-to-net worth ratio, when required by the lender
	☐	Minimum debt service coverage ratio, when required by the lender or by the program regulation. *See §5001.102(d)(4) and (5) for Agency required minimum debt service coverage ratios when refinancing.*
	☐	A reserved section for any requirements imposed by the Agency in its conditional commitment.
	☐	A reserved section for any Agency environmental requirements
	☐	A provision for the lender and the Agency to have reasonable access to the project and its performance information during the term of the guaranteed loan including the periodic inspection of the project by a representative of the lender or the Agency.
☐	Identify whether or not the borrower has a known relationship or association with an Agency employee. If there is a known relationship, identify each Agency employee with whom the borrower has a known relationship. *An Agency employee is anyone who works for USDA, Rural Development.*	
☐	At the time of the loan application, the lender must submit its loan classification and credit risk rating classification scale – See also Block 38 on Form RD 5001-1.	
☐	Real estate appraisals in accordance with §5001.203(c) and in accordance with FIRREA and USPAP Standards 1 and 2.	
	☐	For construction projects, obtain the "as-is" market value and the "prospective" market value as of the date of construction completion
	☐	For construction projects, obtain an income-based appraisal as of the date of construction completion to determine the value of revenues to be generated by the project.
	☐	Complete technical review of the real estate appraisal prepared in compliance with USPAP Standards 3 and 4

☐	Chattel appraisals	
	☐	Newly-acquired – a bill of sale may be used to support the value
	☐	Existing – appraisals are required when its value exceeds $250,000. Must be conducted by an independent qualified appraiser, must be based on industry recognized standards, and reflect the age, condition, and remaining useful life of the equipment.
☐	Feasibility Study – The Agency may require a Feasibility Study when the Lender's written analysis, Borrower's business plan, or project information is not sufficient to determine the technical feasibility, market feasibility, or economic viability of the project.	
	☐	For guaranteed loans greater than $1,000,000 to a new business, a feasibility study is **required** and shall prepared by an independent qualified consultant.
	☐	For guaranteed loans of $1,000,000 or less to new and existing businesses, the Agency **may require** a feasibility study when the Lender's analysis or other Borrower information is not sufficient to determine the technical feasibility or economic viability of the project or if the project will significantly affect the operations of an existing business and its historic cash flow. ***Lenders should complete a detailed credit analysis in these situations.***
☐	Business Plan - Unless the information is contained in the feasibility study or in the credit evaluation, a business plan should be submitted to show how the project will operate and remain viable. This requirement may be omitted when guaranteed loan funds are used exclusively for debt refinancing.	

(c) Provisional content. The following items may also be required based on the type of project being financed or if deficiencies exist in the credit evaluation and more information is needed to adequately determine risk.

☐	Form RD 5001-12 " Certification of Non-Relocation and Market and Capacity Information Report", if the proposed guaranteed loan is in excess of $1,000,000 and will increase direct employment by more than 50 employees.
☐	Form HUD-935.2A - Affirmative Fair Housing Marketing Plan (AFHMP) if the application is for five or more residential units, including nursing homes and assisted-living centers.
☐	SEC Form 10-K "Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 134" for companies listed on a major stock exchange or subject to Securities and Exchange (SEC) regulation – most recent filed.

Capital and Equity Requirements for B&I Loans (§5001.105)

With the OneRD Guarantee Loan regulations, the Agency no longer has a tangible balance sheet equity requirement. Borrowers and Lenders have several options to meet the equity requirements outlined in the regulations.

Table 1 to § 5001.105(d) – Capital Equity Requirements Summary
Borrower must meet one of the following at the time of the closing of the guaranteed loan:

Borrower	**Percent balance sheet equity:**	**Borrower investment as percent of total eligible project cost:**	**Balance sheet equity includes owner contributed capital as percentage of total fixed assets:**
Existing Business	≥10%	≥10%	≥10%
Borrowers that are new businesses with sales contract(s) adequate to meet debt service and the term of the sales contract(s) are at least equal to the term of the guaranteed loan.	≥10%	≥10%	N/A
Borrowers that are new businesses for a project involving construction and the lender will request the loan note guarantee prior to completion of construction.	≥25%	≥25%	N/A
All other borrowers that are new businesses.	≥20%	≥25%	N/A

OneRD Guarantee Loan Initiative Lender's Credit Evaluation Checklist

Lenders must prepare a credit evaluation consistent with USDA, Rural Development standards found in 7 CFR 5001 [RD Staff Instructions 5001]. This checklist is provided to assist the Lender in the completion of its credit evaluation. It is not a replacement for knowledge of the regulation in general or 7 CFR 5001, §5001.202 specifically. The Agency reserves the right to review the Lender's credit evaluation and request additional information.

The Agency recognizes that each Lender has a unique format for presenting the credit evaluation within its organization. The Agency does not have a required format. However, use the following as a checklist of your credit evaluation to make sure you have addressed and/or provided the required information. The written credit evaluation must contain, at a minimum, the following:

DESCRIPTION OF:

- ☐ Proposed Loan
- ☐ Proposed/Existing Project
- ☐ Proposed/Existing Business. Include organization charts or descriptions of ownership structure including percentage of ownership.
- ☐ Guarantors. Applications involving <u>guarantor(s)</u> must also include a global debt service coverage analysis of the <u>guarantor(s)</u> including the cash flow of the guarantor(s).
- ☐ Affiliates, as applicable. Applications involving <u>affiliated entities</u> must include a global credit evaluation and, if applicable, a global historical and projected debt service coverage analysis.

REVIEW AND DISCUSSION OF:

- ☐ Business Plan
- ☐ Feasibility Study, if applicable
- ☐ Technical Report, if applicable
- ☐ Architectural or Engineering Documentation, if applicable

EVALUATION OF CREDIT FACTORS:

Provide a written evaluation on each credit factor documenting the proposed loan is sound:

- ☐ Character - see §5001.202(b)(1) for information on this topic
- ☐ Capacity - see § 5001.202(b)(2) for information on this topic
- ☐ Capital - see § 5001.202(b)(3) for information on this topic
- ☐ Collateral - see § 5001.202(b)(4) for information on this topic
- ☐ Conditions - see § 5001.202(b)(5) for information on this topic

DISCUSSION OF BORROWER FINANCIAL STATEMENTS:

- ☐ Current Balance Sheet and Year-to-Date Income Statement dated within 90 days of the date of application.
- ☐ Historical Balance Sheets, Income Statements, and Cash Flow Statements for the lesser of last three (3) years or all years of operation.
- ☐ Spreadsheets and analysis of Borrower financial statements with appropriate ratios and comparisons with industry standards (such as the Risk Management Association, Bun & Bradstreet, or other recognized industry standard).

DISCUSSION OF GUARANTOR FINANCIAL STATEMENTS:

- ☐ Current Balance Sheet and Year-to-Date Income Statement dated within 90 days of the date of application for all commercial guarantors.
- ☐ Historical Balance Sheets, Income Statements, and Cash Flow Statements for the lesser of last three (3) years or all years of operation for all commercial guarantors.
- ☐ Current personal financial statement of any individual guarantors, dated within 90 days of submission of the complete application.

DISCUSSION OF AFFILIATE FINANCIAL STATEMENTS:

- ☐ Current Balance Sheet for all affiliates.

DISCUSSION OF PROJECTED FINANCIAL STATEMENTS:

- ☐ Pro forma balance sheet projected as of the date of loan closing which will include the new assets being purchased, as applicable, and the new Agency guaranteed loan and other debt associated with the project.
- ☐ Projected balance sheets, income statements, and cash flow statements, or a financial model, starting from the current financial statements through a minimum of two years of the project performing at full operational capacity or stable operations. Any deviation from historical performance must be discussed.
- ☐ Financial projections must be supported by a list of <u>assumptions</u> showing the basis for the projections.

The Agency may request additional financial statements, financial models, cashflow information, updated financial statements, and other related financial information to determine the feasibility of a project and evaluate the credit underwriting or the borrower, any guarantors, and its affiliates.

DISCUSSION OF PROJECTS WITH SEASONAL OR CYCLICAL CASH FLOW:

- ☐ Provide an operational cash flow analysis on a quarterly basis.

DISCUSSION OF PROJECTS WHERE LENDER IS REQUESTING LOAN NOTE GUARANTEE PRIOR TO COMPLETION OF CONSTRUCTION:

☐ Provide an operational cash flow analysis on a quarterly basis through startup or occupancy. Include a construction budget and schedule and indicate whether the quarterly construction costs are being provided by the guaranteed loan, Borrower equity, or other sources.

DISCUSSION OF STRENGTHS AND WEAKNESSES:

☐ Address and describe financial or other credit strengths.

☐ Address and describe financial or other credit weaknesses and risk mitigation measures for the Borrower requirements of this part and in accordance with its internal origination policies and procedures to the extent they do not conflict with the requirements of this part. For each application, the lender must prepare a credit evaluation that is consistent with Agency standards found in this part. The Agency reserves the right to review the lender's credit evaluation and request additional information. Lender approval does not constitute Agency approval.

§ 5001.202 Lender's credit evaluation

For each application, the lender must prepare a credit evaluation that is consistent with Agency standards found in this part. *Lenders are required to only submit loan applications that have been approved by their institution after completion of their internal credit evaluation. The components of a lender's credit evaluation will include a written review and comment on the "Five Cs" of credit that are outlined in 5001.202(b)(1) through (5). The Agency should be able to obtain sufficient details on the project, the borrower, and the borrower's ability to repay the loan from the lender's credit evaluation.*

(a) Lender's evaluation guidelines. The lender must conduct a credit evaluation using credit documentation procedures and underwriting processes that are consistent with generally accepted prudent lending practices for commercial, public and project financing, and also consistent with the lender's own policies, procedures, and lending practices. The underwriting process must include a review of each loan for which a loan guarantee is being sought under this part. Applications involving affiliated entities must include a global credit evaluation and if applicable a global historical and projected debt service coverage analysis. *The lender should evaluate the relationships between all associated parties to determine potential risks which may affect our borrower and its ability to repay the loan. Entities which may have an impact on our borrower or significantly contribute to the repayment ability of the loan should provide financials for global analysis.* Applications involving guarantor(s) must also include a global debt service coverage analysis of the guarantor(s) including the cash flow of the guarantor(s). In addition, the lender must review all applicable contracts, management agreements, and leases to determine they will not adversely affect either the borrower's repayment ability or the value of the collateral securing the guaranteed loan. The lender's evaluation must address any financial or other credit weaknesses of the borrower and project and discuss risk mitigation requirements imposed by the lender.

(b) Credit factors. In performing its credit evaluation, the lender must analyze all credit factors associated with each proposed guaranteed loan and apply its professional judgment to determine that the credit factors and guaranteed loan terms and conditions, considered in combination, ensure guaranteed loan repayment. Credit factors to be analyzed include, but are not necessarily limited to, those areas identified and defined in paragraphs (b)(1) through (5) of this section.

(1) Character. Those qualities that generally impel the borrower to meet its obligations as demonstrated by its credit history, including project and borrower debt structure and debt repayment ability. When applicable, an evaluation may include the character of persons with management control or a 20 percent or more ownership interest in the borrower. When the borrower's credit history or character is negative, the lender will provide satisfactory explanations to indicate that any problems are unlikely to recur. The ownership or membership structure of the project and borrower (including membership, sponsors, other equity investors), and the historical performance and experience of ownership and management specific to the project and industry. The historical performance and experience of any entities providing management or administrative services pursuant to contract should also be evaluated. For CF projects the commitment of the rural community or rural area to be served by the project should be evaluated. Borrower's management, and its for-profit, non-profit or governing board, as applicable, will be evaluated to ensure key management personnel are adequately trained and experienced.

(2) Capacity. A borrower's ability to produce sufficient cash to repay the guaranteed loan as agreed, including the feasibility and likelihood of the project and borrower to produce sufficient revenues to service the project's debt obligations over the life of the guaranteed loan and, when applicable, result in sufficient returns to investors to ensure successful repayment of the guaranteed loan. The lender shall address any economic safeguards of the project, including capital expenditure budgeting or reserve funds and other contingency reserve funds such as maintenance reserve funds or debt service reserve funds, intended to protect and safeguard the Agency and lender in the event of default. The lender must make all efforts to:

(i) Ensure that the borrower has adequate working capital, operating capital and reserves for capital expenditures, debt service, and maintenance as applicable; and

(ii) Structure or restructure debt so the borrower has adequate debt coverage, documenting as applicable the necessity of any debt refinancing. The evaluation will be supported by a cash flow analysis.

(3) Capital. The borrower must have the resources to adequately capitalize the project and demonstrate the ability to generate and maintain sufficient cash flow for its operations. The extent to which project costs are funded by the borrower in relation to project costs funded by the guaranteed loan or

other Federal and non-Federal governmental assistance such as grants, tax credits, or other loans must be analyzed.

(4) Collateral. This criterion refers to the security pledged for the guaranteed loan. The lender is responsible for obtaining and maintaining proper and adequate collateral for the guaranteed loan. All collateral must secure the entire guaranteed loan. The lender is prohibited from taking separate collateral for the guaranteed and unguaranteed portions of the guaranteed loan or requiring compensating balances or certificates of deposit as a means of eliminating the lender's exposure on the unguaranteed portion of the guaranteed loan. Collateral can include, but is not limited to: general obligation bonds; revenue bonds; pledges of taxes or assessments; assignments of facility revenue and byproduct revenue, as well as other assets such as land, easements, rights-of-way, water rights, buildings, machinery, equipment, inventory; accounts receivable, other accounts, contracts, cash, assignments of leases and leasehold interests. Intangible assets may serve as collateral, provided they do not serve as primary collateral. For purposes of determining compliance with this requirement, leasehold improvements such as buildings and other structures on leased property are considered tangible assets and can serve as primary collateral. It is the lender's responsibility to obtain, document, file, record and take all actions necessary to properly perfect and maintain adequate collateral to protect the interests of the lender and the Agency.

(i) The lender must determine the market value of collateral as established by an appraisal in accordance with § 5001.203. *Equipment can be valued by its cost (if newly acquired and supported by a bill of sale) or by an appraisal that establishes a market value.*

(ii) The lender should discount collateral consistent with sound loan-to-discounted value practices which must be adequate to secure the guaranteed loan in accordance with this section. *Examples include:*

(A) A newly purchased piece of equipment would likely receive less of a discount versus used equipment, given the new equipment has a longer useful life and resale value versus aged used equipment;

(B) Specialized equipment, such as a horizontal drilling machine, which could not be used by a wide variety of borrowers and therefore has less marketability, would receive a higher discount versus a piece of equipment, such as a skid loader, which could be used by a variety of businesses and therefore could be easily marketed;

(C) If using a project finance approach and there is a long-term, predictable revenue stream that is not interrupted by typical business cycles or market variables, the risk allocation and credit support may be derived principally from contracts, such as the power purchase agreement and the long term lease, along with a lien on all project assets and business assets of the special purpose entity. Therefore, an assignment on those contracts holds weight in the overall loan to value analysis even there is no value being contributed to the calculation.

The lender must provide satisfactory justification of the discounts being used. Only under exceptional circumstances for WWD projects with a loan guarantee under the provisions of § 5001.126(c) will the Agency guarantee a loan where the guaranteed loan amount is greater than the market value of the collateral.

(5) Conditions. This factor refers to the general business environment, including the regulatory environment affecting the business or industry, and status of the Borrower's industry. Consideration will be given to items listed below and when applicable the lender should submit supporting documentation (e.g., feasibility study, market study, preliminary architectural or engineering reports, etc.):

(i) Availability and depth of resource/feedstock market, strength and duration of purchase agreements and availability of substitutes;

(ii) Analysis of current and future market potential and off-take agreements, competition, type of project (service, product, or commodity based),

(iii) Energy infrastructure, availability and dependability, transportation and other infrastructure, and environmental considerations;

(iv) Technical feasibility including demonstrated performance of the technology and integrated processing equipment and systems, developer system performance guarantees, or technology insurance;

(v) Complexity of construction and completion, terms of construction contracts, experience and financial strength of the construction contractor or engineering, procurement, and construction (EPC) contractor;

(vi) Contracts and intellectual property rights, licenses, permits, and state and local regulations;

(vii) Creditworthiness of any counterparties, as applicable;

(viii) Industry-related public policy issues; and

(ix) Other criteria that the lender or Agency deems relevant to the project.

(6) Content. The credit evaluation must be sufficiently detailed to describe the proposed loan, business and project scenario and document that the proposed loan is sound. The credit evaluation must include:

(i) A written evaluation of each credit factor listed in paragraphs (b)(1) through (5) of this section and any additional factors as appropriate; and

(ii) A written evaluation of the feasibility study, business plan, technical report, and engineering and architectural reports, as applicable; and

(iii) Spreadsheets and analysis of the financial statements provided in accordance with § 5001.303, with appropriate ratios and comparisons with industry standards (such as Dun & Bradstreet or the Risk Management Association). The spreadsheets should enable a reviewer to easily scan the data, spot trends, and make comparisons. *The analyst should comment on the business' performance trends and how they compare to the industry averages. Downward trends of revenues, cash flow and profitability should be examined closely as they may be an indicator of operational or regional industry weakness. Steps taken or proposed to address any financial or industry weakness must be reasonable and adequately addressed in the lender's analysis.*

(iv) Financial projections deviating from historical financial performance must be substantiated and documented. *The borrower's projections should be consistent with their past performance. Increases to revenues, profit margins or profitability should be reasonable and substantiated in the lender's analysis.*

(v) Projected operational cash flow analysis on a quarterly basis for borrowers with seasonal cyclical cash flow.

(vi) Operational cash flow analysis on a quarterly basis from the current financial statements through start-up or occupancy for projects involving construction when lenders are requesting the loan note guarantee prior to completion of construction. *The lender and borrower are required to provide a construction schedule with their application for a loan guarantee prior to completion. Their projected cash flow needs should mirror their quarterly construction costs as the project is being completed. The cash flow analysis must indicate whether this cash flow is being provided by the guaranteed loan, borrower equity, or other sources.*

§ 5001.203 Appraisals.

Appraisals of collateral are required as set forth in this section. The lender is responsible for ensuring that appraisal values adequately reflect the actual value of the collateral based on an arm's length transaction. Completed appraisals should be submitted when the application is filed. If the appraisal has not been completed when the application is filed, the lender must submit an estimated appraised value. Prior to the issuance of the loan note guarantee, the estimated value must be supported with an appraisal acceptable to the agency *as determined by the loan approval official*. *Appraisals will not be required to be reviewed by Agency appraisal staff. If an appraisal is received containing any value attributed to business valuation or as a going concern, the business valuation or going concern value must be deducted from the reconciled market value prior to discounting. The term "contributory value of business enterprise" is often used.*

(a) Newly-acquired chattel. A bill of sale may be submitted to support the value of newly-acquired chattel.

(b) Existing chattel. The lender must obtain appraisal(s) for existing chattel collateral when its value exceeds $250,000 *and will be used to meet loan to value requirements*.

(c) Real estate. The lender must obtain appraisals for real estate collateral when the value of the collateral exceeds $500,000 or the current limitation established under the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) Public Law 101-73, 103 Stat. 183 (1989). Real estate and chattels with a value below these thresholds must be evaluated in accordance with the lender's primary regulator's policies relating to appraisals and evaluations or, if the lender is not regulated, in accordance with normal banking practices and generally accepted methods of determining value.

(1) For construction projects, the lender must:

(i) Obtain the "As Is" market value and the "prospective" market value