U.S. Department of Agriculture
Office of Inspector General
Southeast Region
Audit Report

RURAL HOUSING SERVICE
GUARANTEED MULTI-FAMILY HOUSING LOANS

Report No.
04099-1-At
June 2001

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

DATE: June 25, 2001

REPLY TO
ATTN OF: 04099-1-At

SUBJECT: Rural Housing Service - Guaranteed Multi-Family Housing Loans

TO: James C. Alsop
Acting Administrator
Rural Housing Service

ATTN: Leroy Jones
Acting Director
Financial Management Division

This report presents the results of the subject audit. Your agency's May 24, 2001, response to the draft report is included in exhibit A with excerpts and the Office of Inspector General's position incorporated into the Findings and Recommendations section of the report.

Based on the information contained in the response, we have reached management decision on Recommendation No. 4. Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer.

Management decision can be made on the remaining recommendations (Nos. 1, 2, 3, and 5) once the agency has provided the additional information outlined in the report sections OIG Position, for the applicable recommendations.

In accordance with Department Regulation 1720-1, please furnish a reply within 60 days describing corrective actions you plan to take and the timeframes to address these recommendations. Please note that the regulation requires a management decision to be reached on all recommendations within 6 months of report issuance.

/S/

RICHARD D. LONG
Assistant Inspector General
for Audit

Attachments

cc: Director, Planning and Accountability Division, OCFO
Director, FMD

EXECUTIVE SUMMARY

RURAL HOUSING SERVICE
GUARANTEED MULTI-FAMILY HOUSING LOANS

AUDIT REPORT NO. 04099-01-At

RESULTS IN BRIEF

The objective of the Guaranteed Rural Rental Housing Program (GRRHP) is to increase the supply of decent, safe, and sanitary housing available to low and moderate-income residents in rural areas. The GRRHP operated as a demonstration and pilot program for fiscal years (FY) 1996 through 1998 and became permanent in FY 1999. For the first 4 years (our primary audit period), aggregate budget authority was $153 million which was to be used to finance 106 projects with 4,866 rental units. The audit objectives were to evaluate (1) the results of the pilot/demonstration programs leading to the permanent program, and (2) Rural Housing Service's (RHS) administrative controls established to administer the permanent program.

Each year RHS justified substantial increases in guarantee authority by reporting that the program had been highly successful. We found that the GRRHP had not (1) achieved the success that RHS reported in annual budget justifications and its Government Performance and Results Act annual reports and (2) met its objective of increasing the supply of affordable rural rental housing available to low and moderate-income residents. As of August 8, 2000, the GRRHP had financed only 222 (4.6 percent) of the 4,866 rental units proposed for FY's 1996 through 1999.

Of the 106 guaranteed commitments totaling about $153 million issued for the 4 years, 78 projects with 3,729 proposed rental units probably will not be built and/or financed through the GRRHP. The 78 projects represented $122.1 million (80 percent) of the $153 million of guarantee commitments obligated for those years. The lenders generally told us they and/or the potential borrowers did not plan to proceed with the projects because (1) it was difficult to sell the loans on the secondary market, (2) permanent financing could not be found for the projects, (3) problems were encountered securing acceptable construction sites, or (4) projects were not economically feasible. RHS did not deobligate and redirect the $122.1 million to other project requests. Therefore, the guaranteed budget authority to house 3,729 low and moderate–income families was lost.

KEY RECOMMENDATIONS

We recommend that RHS (1) develop procedures to accurately report in budget request and GPRA reports the actual status of loan activity including the number of loans guaranteed and units constructed, and the number of units that will not be constructed and the associated guarantee authority that has lapsed and (2) work with the stakeholders to determine if there is a need for the GRRHP under its current structure. RHS should also perform a comprehensive evaluation of the program to determine if it is feasible to improve its marketability, and develop accurate data to justify future budget requests. In addition, RHS should establish procedures and controls to track the status of approved projects to ensure that lenders submit loan guarantee applications within required timeframes or they withdraw their request timely, and to obligate and redirect guarantee authority to other projects timely.

AGENCY RESPONSE

In its May 24, 2001, response to the draft report, RHS either agreed with or proposed alternatives to the report's five recommendations and provided information on actions taken to improve the program since the audit fieldwork was completed. We have incorporated applicable portions of the RHS response along with our position within the Findings and Recommendations section of the report. The agency's response is included as exhibit A of the report.

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INTRODUCTION

BACKGROUND

On March 28, 1996, the President signed the Housing Opportunity Program Extension Act of 1996. One of the provisions of the Act was the authorization of the Section 538 Guaranteed Rural Rental Housing Program (GRRHP), a new program added to the Housing Act of 1949. The GRRHP operated as a demonstration program in fiscal year (FY) 1996 and 1997, a pilot program in FY 1998, and became a permanent program in FY 1999. Final regulations for the program were published in the Federal Register on July 16, 1999.

The overall objective of the GRRHP is to serve the housing needs of rural families of low and moderate-income in partnership with public and private lending institutions. The specific program goals are to:

- Increase the supply of moderately-priced housing in rural areas;
- Ensure that housing is affordable to low and moderate-income rural residents whose incomes are 115 percent of area median income or less;
- Provide housing that is decent, safe, sanitary, and competitive in the market; and
- Foster risk-sharing partnerships with public and private lenders.

Lenders provide financing for the projects and service the loans. Unless borrowers default on their loans, the program's only cost to the Government is the subsidies provided (e.g., interest and tax credits) and the cost to administer the program. In the event of loan default, the Government pays 90 percent of any loss incurred after liquidation of loan collateral.

The GRRHP was intended to reach the needs of rural America not being served by Rural Housing Service's (RHS) Section 515 Multi-Family Housing Program - - a direct loan program. Most beneficiaries of the GRRHP would have incomes too high to qualify for the Section 515 Program, yet still have incomes too low to afford to buy their own homes.

On an annual basis, RHS publishes a Notice of Funding Availability (NOFA) in the Federal Register informing potential lenders and other interested parties of the amount of GRRHP guarantee authority available for the year. NOFA identifies any priorities for selection of proposed applications, and the process by which RHS scores and ranks the proposals. In response to NOFA, lenders submit a request to RHS for scoring and ranking a proposed project. The lender must provide sufficient information to establish the purpose of the proposed project, its location, and how it meets the established priorities for guarantee. Lenders with top ranked proposals receive a Notice to Proceed with Processing inviting them to submit a GRRHP application. Lenders are to submit a completed application within 120 days from receipt of a Notice to Proceed with Processing. Lenders that decide not to proceed must notify RHS in writing within 90 days from receipt of a Notice to Proceed with Processing so that others with eligible proposals can be invited to apply. Upon receipt and approval of a completed application, RHS issues the lender a "Conditional Commitment" for the loan guarantee.

RHS issues a permanent loan guarantee once the project has been completed and attained a minimum level of occupancy as determined by the lender with RHS' concurrence. In general, minimum level of occupancy means at least 90 percent occupancy for 3 months.

The maximum guarantee is 90 percent of the loan principal and accrued interest.

RHS collects an application fee of $2,500 from lenders for each application submitted. Upon receiving a loan guarantee, lenders are assessed an initial fee equal to one percent of the guarantee amount. Further, an annual fee of at least one-half percent of the outstanding principal amount of the loan is assessed each year.

Table 1 shows the annual guarantee program level for FY's 1996 through 2000, and the level RHS requested for FY 2001.

Table 1

FY	Budget Amount (Millions)
1996	$13
1997	28
1998	38
1999	74
2000	100
2001	100
Total	**$ 353.00**

The RHS National and State offices administer the GRRHP jointly. The National office allocates loan guarantee authority to the States; scores, ranks, and approves projects; and provides credit enhancements through interest credit to encourage private and public lenders to make new loans for affordable rental properties. For at least 20 percent of the loans made each FY, RHS will provide assistance in the form of interest credit, to the extent necessary, to reduce the agreed-upon rate of interest on the loan.

RHS State officials are responsible for (1) reviewing lenders' initial loan application packages to determine completeness before forwarding them to the RHS National office, (2) monitoring approved projects during the construction, start-up and operational phases, (3) collecting fees associated with the program, and (4) performing periodic reviews of up and running projects to ensure they are in compliance with program requirements**.**

Lenders are required to service GRRHP loans. Borrowers must develop and maintain property that is decent, safe, and sanitary; ensure that the occupancy and rent requirements are met; comply with all other program rules and regulations; and comply with the loan requirements.

The Government Performance and Results Act (GPRA) of 1993 requires agencies to set target performance goals for their programs and to measure performance to determine the extent to which intended program outputs have been achieved. Each year Rural Development (RD) develops GPRA plans with goals and target levels for each of its housing programs including rental housing. Target performance levels for GRRHP was the number of rental units to be built each year. GPRA reporting requirements call for reporting actual outputs (e.g., rental units built) in comparison to target goals annually to Congress and the Office of Management and Budget (OMB).

OBJECTIVES

The audit objectives were to evaluate (1) the results of the pilot/demonstration programs leading to the permanent program and (2) RHS' administrative controls established to administer the permanent program.

SCOPE

The audit, conducted in accordance with generally accepted government auditing standards, covered GRRHP operations from October 1996 through August 2000. Audit fieldwork was performed from February through August 2000, and included work at the RHS National office in Washington, D.C.; RHS State offices in Gainesville, Florida; Indianapolis, Indiana; and the RHS Area office in Tavares, Florida. We judgmentally selected and reviewed pertinent documents for two of the five permanent loan guarantees issued by RHS. We selected one loan guarantee because it was the first issued and the second loan guarantee because it was the most recent issued at the time of the audit fieldwork. We also contacted 60 lenders who were issued guaranteed commitments for FY's 1996 through 1999. We did not review FY 2000 activity because at the time of the audit fieldwork, sufficient time had not elapsed for loan application processing. For FY 2000, Congress authorized $100 million for the GRRHP. As of May 8, 2000, RHS had approved 40 requests totaling approximately $61 million received in response to the FY 2000 NOFA. RHS was still in the process of notifying the approved lenders to proceed with application processing.

METHODOLOGY

To accomplish the audit objectives, our review consisted of the following:

- Research of applicable laws and regulations, RHS policies and procedures, and pertinent correspondence at the National office and the State offices visited.
- Interviews with responsible RHS National, State, and field office officials, and lenders authorized to participate in GRRHP.
- Review of GRRHP handbooks and checklists.
- Review and analysis of a contract study completed by a private sector consultant.
- Review of selected loan guarantee applications.
- Visits to two GRRHP projects that received loan guarantees and two projects requesting loan guarantees.
- Research and review of RHS' annual budget requests and Congressional budget hearings, and discussions with the Office of Budget and Program Analysis staff.
- Review of RD's FY 2000 and 2001 GPRA Annual Performance Plan and FY 1999 Annual Performance Report.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	RURAL HOUSING SERVICE OVERSTATED THE SUCCESS OF THE GUARANTEED RURAL RENTAL HOUSING PROGRAM

The GRRHP has not (1) achieved the success that RHS reported to Congress in annual budget justifications and GPRA reports and (2) met its objective of increasing the supply of affordable rural rental housing available to low and moderate-income residents. As of August 8, 2000, the GRRHP had financed only 222 (4.6 percent) of the 4,866 rental units proposed for FY 1996 through 1999. Each year RHS requested substantial increases in the GRRHP guarantee authority. RHS justified the increases based on the number of projects/rental units for which guarantee authority was obligated rather than actual rental units built and financed. Reporting based on obligations rather than rental units built also resulted in inaccurate and misleading performance data in annual GPRA reports to Congress and OMB. Table 2 shows annual guarantee program levels for FY's 1996 through 2001, project commitments, and actual guarantee authority used.

Table 2

FY	Program Level (Millions)	Project Commitments	Rental Units	Guarantee Authority Used (As of August 8, 2000)		
				Projects	Amount	Rental Units
1996	$13	9	370	4	$3,910,042	142
1997	28	18	869	1	3,420,000	80
1998	38	28	1,110	0	0	0
1999	74	51	2,517	0	0	0
Subtotal	$153	106	4,866	5	$7,330,042	222
2000	$100	40[1]	2,157	0	0	0
2001	100	0	N/A	0	0	0
Total	$353	146	7,023	5	$7,330,042	222

[1]As of May 8, 2000, 40 requests for $60 million were approved

Of the 106 guarantee commitments totaling about $153 million issued for 1996 through 1999, we found that 78 projects (73.6 percent) with 3,729 proposed rental units (76.6 percent) probably will not be built and/or financed through GRRHP. The 78 projects represented $122.1 million (80 percent) of the $153 million of guarantee commitments obligated for those years. The lenders generally told us they did not plan to proceed with the projects because (1) it was difficult to sell the loans on the secondary market, (2) permanent financing could not be found for the projects, (3) problems were encountered securing acceptable construction sites, or (4) projects were not economically feasible. RHS did not deobligate and redirect the $122.1 million to other project requests. Therefore, the guaranteed authority to house 3,729 low and moderate–income families was lost.

FINDING NO. 1

PROGRAM ACCOMPLISHMENTS WERE OVERSTATED

RHS overstated program accomplishments in its annual budget requests and GPRA reports. The GRRHP was authorized as a demonstration program in FY 1996 and 1997, and operated under "pilot program" funding for FY 1998. RHS was not required to provide justification for budget requests for those 3 years. The 3-year demonstration/pilot program did not provide RHS with sufficient historical data to evaluate the marketability for the program, and assess annual funding needs. However, since FY 1999, RHS justified material increases in its annual budget requests reporting the program had been highly successful even though only 5 projects with 222 rental units had been financed. Further, RD materially overstated performance accomplishments in its GPRA reports. For FY's 1998 and 1999, RD reported 3,650 rental units as actually built. We found that 78 of the 106 projects approved for FY's 1996 through 1999 will probably not be built and/or financed through the GRRHP (see Finding No. 2). These 78 projects with 3,729 rental units represented $122.1 million (80 percent) of the $153 million of guarantee commitments obligated for the 4 years. RHS did not deobligate and redirect the funding to other projects timely.

Federal policy[1] requires that agencies ensure that timely and accurate financial management and performance data are submitted to the OMB and Department of the Treasury so that the Government's credit management and debt collection programs and policies can be evaluated. Also, agencies are required to perform periodic evaluations of their credit programs to assess their effectiveness in achieving program goals.

[1] OMB Circular No. A-129, Policies for Federal Credit Program and Non-Tax Receivables, Section 1.4.a. and b., dated January 11, 1993.

Congress, in authorizing the GRRHP as a demonstration program in FY 1996, required the Secretary of Agriculture to submit a report to Congress within two years. The report was to include (1) types of borrowers providing housing, areas served, geographical distribution of the housing, levels of income of the residents of the housing, number of units provided, extent to which borrowers obtained financial assistance, and extent of usage of low-income housing tax credits, (2) analysis of the financial viability and the need for project-based rental assistance for such housing, and (3) any recommendations for expanding or improving the program.

To assist in meeting the Congressional reporting requirement, RHS contracted with a firm to perform a study of GRRHP. The study was completed in early 1997 and addressed the following questions (1) to what extent will borrowers utilize the program, (2) what rural areas can best utilize the program, and (3) in what rural areas eligible for the program is housing most needed by low and moderate-income families? The firm conducted 34 telephone interviews with nonprofit and for-profit developers, lenders, state housing agencies, and representatives of the secondary market in major geographic regions in the United States. The firm also performed an analysis of the program to evaluate the impact of a loan guarantee, with and without supplementary subsidies, on projected development costs and rents. The questions addressed in the study did not provide answers to most of the questions asked by Congress and conclusions were based on estimates and proforma models and not on historical data. RHS officials said they were unable to provide answers to Congress' first question because the GRRHP was new and not enough historical data was available at that point in time.

RHS used the results from the independent study as part of its report submitted to Congress in 1998. On April 28, 1998, RHS provided the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Banking and Financial Services a copy of an interim regulation implementing GRRHP. The regulation was published as an interim rule with request for comments. Included in the interim rule was RHS' report on the demonstration program in the form of a Regulatory Impact Analysis. The Regulatory Impact Analysis discussed the results of the contractor's review of the GRRHP. RHS reported inaccurate program performance results in the impact analysis and subsequent budget request. (see table 3.)

Table 3

RHS REPORTED	WE FOUND THAT
In the April 1998 Regulatory Impact Analysis RHS officials stated that "Funds available under the combined FY 96 and 97 demonstrations resulted in the production of 1,183 units. Using a program level of $38.8 million for FY 98, the program is expected to produce approximately 650 units."	As of June 1998, RHS had issued guarantees for 4 projects with only 142 rental units.
For FY 1999, RHS requested $150 million which would provide for construction of 4,087 rental units. Congress authorized $74 million. RHS justified the substantial increase by claiming that the demonstration programs were extremely successful, with demand for funding outstripping supply by a five-to-one margin.	For the period FY 1996 through FY 1998, RHS received a total of 123 eligible requests for loan guarantees and accepted 55 - - about a 2 to 1 ratio for demand versus supply. Further, only four guarantees had been issued for 142 rental units.
For FY 2000, RHS asked for $200 million, which would provide for construction of over 5,000 rental units. In its request, RHS stated, "The GRRHP has shown great potential, particularly where it can be used to leverage other Federal, State and local or private financing." Congress authorized $100 million for the program.	Only five projects with 222 rental units had been financed. RHS had to publish 4 NOFA's (February, May, August, and September 2000) in order to obtain a sufficient number of lender requests to obligate the $100 million.
For FY 2001, RHS asked for $200 million. RHS stated "the section 538 Rural Rental Housing Guaranteed Loan Program has been tremendously successful in its first 3 years of operation. It fills an unmet need for housing for rural Americans with low to moderate incomes. Because of the great success of this program we would like to expand it to all states." Congress authorized $100 million.	Only 5 of the 55 projects planned for the first 3 years had been financed with another 6 planned. Funds for the remaining 44 projects with 1,805 rental units will not be used. Further, 78 of the 106 projects planned for the first four years (FY 1996-1999) probably will not be financed.

RD also materially overstated actual performance outputs (rental units actually built) in its annual GPRA reports to Congress and OMB. The GPRA reports concluded that target goals were met when they were not. Performance Goal 2 of RD's FY 2000 and 2001 GPRA Annual Performance Plans was to "Improve the quality of life for the residents of rural communities by providing access to decent, safe, sanitary, and affordable rental housing." For this goal, RD established a target number of rental units to be built annually through the

GRRHP. RD reported that the actual number of GRRHP rental units built in FY's 1998 and 1999 were 1,110 and 2,540, respectively. RD further estimated that in FY's 2000 and 2001 total units to be built would be 3,293 and 6,452, respectively (see table 4).

Table 4

GPRA REPORTS		
	RENTAL UNITS	
FY	TARGET	REPORTED BUILT
1998	1,110	1,110
1999	2,052	2,540
2000[1]	3,293	2,895
2001[1]	6,452	[1]
TOTAL	**12,907**	**6,545**
[1] Performance report not available at completion of audit.		

The GPRA reports stated that the number of new units built was derived from RHS multi family housing staff's internal records that were not audited but were considered reliable. The level of performance success (3,650 rental units actually built) RD reported in the GPRA reports did not agree with the 222 rental units built as of August 8, 2000, and our findings that most of the units will not be built.

At the March 8, 2001, exit conference and in a March 15, 2001, followup memorandum, RHS stated that it reported to Congress and OMB on the basis of obligations for financing. This reporting is in the form of obligations made and lists the number of units in each project for which funds were obligated. RHS stated this method of reporting is used because of the time required for development and construction. RHS reported (1) NOFA's for FY's 1996 through 2000 generally closed in August of each year, (2) funds had to be obligated by September 30, and (3) time required from awarding the guarantee, completing construction and meeting the 90 percent sustained occupancy rate averaged between 18 and 24 months. RHS further stated that if it did not report obligations and reported closed loans or issued guarantees, only transactions that were awarded up to two years prior would be reported.

Our review found that regardless of the elapsed time from awarding the guarantee to sustained occupancy, 78 projects with guarantees totaling $122.1 million (80 percent of total obligations for FY's 1996 through 2000) probably will not be built. This included 57 projects containing 2,590 units with guarantees totaling $83.1 million, which RD incorrectly reported in its GPRA reports as actually built. Finding No. 2 provides details of why the projects will not be built.

At the exit conference and in its March 15, 2001, followup memorandum, RHS also discussed that the GRRHP was not operated as a permanent program until 1998, since which time the agency developed program regulations and handbooks that became effective July 1999. Also since 1998, it developed the NOFA's, provided program information to the field staff and the public, and continued to share ideas and concepts with stakeholders to obtain additional feedback on program implementation. At the exit conference and in the memorandum, RHS discussed a number of actions it has taken to assess the program and remove barriers, which has restricted construction of projects. (See Finding No. 2)

RECOMMENDATION NO. 1

Develop procedures to accurately report in budget request and GPRA reports the actual status of the loan activity including the number of loans guaranteed and units constructed, and the number of units that will not be constructed and the associated guarantee authority that has lapsed.

RD Response

In its May 24, 2001, response, RHS stated:

> *We continue to disagree with the OIG on the content of reporting to Congress on program accomplishments. We do agree that a literal reading of the language in the GPRA reports would lead one to believe that the number of units stated had actually been constructed. The Agency acknowledges that the label of the report could be misleading. However, the agency reports program results to Congress and the Office of Management and Budget (OMB) on the basis of loan obligations or commitments for loan guarantees for financing made during the course of the report year. The reports issued provide the number of loan obligations or guarantees committed. The program results are reported this way because of the long development and construction processes. If we did not report obligations and guarantee commitments, and instead only reported constructed projects, we would be reporting activities that were awarded up to two years prior. In particular, with the section 538 program with average loan guarantee commitment to occupancy timeframes of 18 to 24 months, the Agency would never be able to report any accomplishments in the current year of appropriation. Congress, OMB, and the Departmental budget office understand the Agency reporting practice and have allowed the Agency to use it for years.*

Furthermore, in researching the requirements for GPRA reporting, we found no requirement that stated that the only method in which program progress could be measured was projects and units actually built. As such, the Agency intends to continue to report loan obligations made and loan guarantees committed for the reporting years. However, we will ensure that the report is properly labeled to reflect what is being constructed and occupied for prior appropriation years. The timeframe for completion will be with issuance of the Agency FY 2001 GPRA report.

OIG Position

The past reporting of accomplishments based on commitments/obligations in annual budget request and GPRA reports resulted in information that was misleading in light of the fact that most of the projects for which funds were obligated will not be built. We agree with RD's alternative proposal for showing in GPRA reports a supplemental table depicting the actual number of projects and units constructed with prior years' appropriations. However, the response did not address reporting methods for annual budget justifications and request. A supplemental reporting of prior actual accomplishments similar to that planned for GPRA should be included with annual budget request.

To achieve management decision, we need RD's agreement to also report prior years' actual accomplishments in future budget request and justifications.

RECOMMENDATION NO. 2

Work with the stakeholders to evaluate the status and accomplishments of the program to determine if there is a need for it under its current structure.

RD Response

In its May 24, 2001, response, RHS stated:

The agency has continually worked with stakeholders under the program and has been informed repeatedly that there exists a great need for the program. The continued oversubscription of guarantee applications to funds available is evident of this need. Subsequent to the time the auditors interviewed staff and stakeholders to gather information for the audit, the Agency, in a proactive effort to determine how best to improve the program, held a significant full day stakeholder *session on December 5, 2000. Attendees included lenders, developers, industry groups, secondary market representatives and other state and federal agency representatives. The results of that meeting were a list of initiatives that all parties involved thought could be implemented without significant hardship. Since that date, the Agency has proceeded on three fronts. First, it is revising its regulations to incorporate the recommendations of the group. Second, it is in the process of developing Memorandums of Understanding with each of the three major secondary market purchasers of the loans, Freddie Mac, Ginnie Mae, and Fannie Mae. Each are in varying stages of development, but the first MOU is very close to being executed. Thirdly, the Agency obtained statutory modifications to the program that the group thought important with passage of the American Homeownership and Economic Opportunity Act of 2000, P.L. 106-569. These modifications to the regulations are in the clearance process and will be issued summer of 2001, as Interim Final Rule changes.*

The recommendation given by OIG is good advice. We will continue to work with stakeholders to improve our program as we do with each of our programs. However, we find it impossible to provide specific actions and times for this recommendation, as the Agency is committed to continually work with stakeholders to improve the program so long as it is authorized.

OIG Position

We agree with the action taken and the three fronts of action underway. However, to achieve management decision, we need the agency's best estimate of timeframes for implementation of the two that are in process. Specifically, timeframe estimates for (1) publishing regulations to incorporate recommendations of the stakeholder group and (2) completing MOU's with the three secondary market purchases.

FINDING NO. 2

LENDERS AND BORROWERS DID NOT PROCEED WITH APPROVED PROJECTS

In most cases, lenders and borrowers did not proceed with the approved projects. The lenders generally told us they and/or the potential borrowers were not proceeding with the loans because (1) it was difficult to sell the loans on the secondary market, (2) permanent financing could not be found for the projects, (3) problems were encountered securing acceptable construction sites, or (4) projects were not economically feasible. As a result, as of August 8, 2000, only 222 4.6 percent) of the 4,866 proposed rental units were financed and placed in service. The GRRHP had not achieved its objective, impart, because of barriers to project financing and construction.

GRRHP instructions[2] require lenders to submit a completed loan guarantee application within 120 days of receipt of a Notice to Proceed With Application Processing. The instructions also require lenders who decide not to proceed with the application process to notify the RHS in writing within 90 days after receiving a Notice to Proceed With Application Processing so that others with eligible proposals can be invited to apply.

GRRHP guarantee authority has to be obligated in the year appropriated. Guarantee authority obligated for lenders who withdraw their requests is lost unless RHS deobligates and redirects the guarantee commitments to other eligible requests before the end of the FY.

For FY's 1996 through 1999, RHS issued 106 commitments for guarantees totaling about $153 million. RHS had no written procedures or administrative controls in place to monitor the status of approved commitments and it did not monitor lenders' actions to ensure that formal applications were submitted timely, borrowers were making progress on construction of the proposed projects, and commitments were deobligated and redirected to other projects timely when proposed projects would not proceed. RHS records only showed the status of 21 commitments for which the agency had either issued guarantees, received formal applications, or had been notified by the lenders to withdraw the request. For the remaining 85 commitments, RHS had not received loan guarantee applications from the lenders and/or notifications that the lenders did not plan to proceed with the loan guarantee. RHS, in its Notice to Proceed With Application Processing, did not specify a deadline for lenders to submit loan guarantee applications or withdraw their requests. Because RHS was not aware of the status of the remaining 85 commitments, we had to contact 60 lenders to determine the status of the commitments.

On February 28, 2000, the GRRHP National Office staff was directed to contact RHS State offices and lenders to determine the status of the approved commitments for which a completed application had not been received. As of August 8, 2000, the RHS National office had taken little action to contact lenders. When we contacted the lenders, we asked them if anyone from RHS had contacted them to inquire about the status of the projects. For 65 of

[2] Guaranteed Rural Rental Housing Program Origination and Servicing Handbook, dated December 18, 1998.

the 85 requests (76 percent), the lenders told us that RHS had not contacted them to ascertain the status of the proposed projects.

Table 5 shows details of our determination of the status of the 106 commitments as of August 8, 2000.

Table 5

Status of Commitments	FY/PROJECTS				TOTALS			
	1996	1997	1998	1999	Projects	Amount (Millions)	Units	Percent of Units
a. Approved	4	1			5	$7.3	222	4.6
b. Pending Approval				4	4	4.7	96	2.0
c. Withdrawn	4	8			12	23.0	549	11.3
Subtotal	**8**	**9**		**4**	**21**	**$35.0**	**867**	**17.9**
d. Plan to Withdraw		6	21	29	56	$86.0	2667	54.8
e. Doubtful	1			3	4	7.0	288	5.9
f. Plan to Use		1	5	13	19	18.6	819	16.8
g. Unknown		2	2	2	6	6.2	225	4.6
Subtotal	**1**	**9**	**28**	**47**	**85**	**$111.8**	**3999**	**82.1**
TOTAL	**9**	**18**	**28**	**51**	**106**	**$146.8**	**4866**	**100.0**

Further details of the status of the 106 projects are presented below.

A. RHS issued 5 loan guarantees totaling $7,330,042 of the total $152.8 million obligated for the 4 FY's. The 5 projects contained 222 rental units.

B. Four applications totaling $4,741,000 were in the RHS National office awaiting approval. The 4 projects contained 96 rental units.

C. Lenders notified RHS to withdraw 12 commitments for guarantees totaling $23,032,120. Lenders withdrew their requests because the borrowers/developers dropped the projects for economic reasons, there was no secondary market for the loans, or the lender decided not to participate in the program. These projects contained 549 rental units. For example, one potential borrower with 2 proposed projects in Georgia approved in FY 1997 for $6,670,000, decided to withdraw his requests because the projects did not include enough rental units to be economically feasible.

   The $23,032,120 of guarantee commitments were not deobligated and redirected to other projects.

D. Lenders told us they planned to withdraw their requests for 56 of the projects totaling $85,951,313. The 56 projects were to contain

2,667 rental units. In many cases, the lenders told us they had not submitted applications because they never had firm commitments from borrowers (builders, developers, etc.) in the first place. RHS was not aware of the status of the 56 projects and the guarantee commitments had not been deobligated and redirected to other projects. The lenders planned to withdraw their requests for the following reasons.

- No Longer Interested - Lenders and/or borrowers were no longer interested in proceeding with 42 projects totaling $64,401,995. Some said the guarantee was too low, others said the small amount of the loans and project sizes were not profitable enough, and others did not cite a specific reason. For example, 1 lender with 3 projects (2 in Kansas and 1 in Missouri) totaling $3,250,000 approved in FY 1999 planned to withdraw the requests because the borrower was no longer interested in building the projects.

- No Secondary Market for Loans - Lenders told us they planned to withdraw requests for 11 of the guarantees totaling $19,531,618 because of the lack of a secondary market for the loans. They said the loans were difficult to sell on the secondary market because (1) they carried only a 90-percent guarantee (2) had to be amortized over the life of the loan (between 30 and 40 years) because balloon notes were prohibited, and (3) individual loan amounts were too small to be attractive to investors in the secondary market. For example, a lender with 7 projects (4 in North Carolina and 3 in South Carolina) totaling $13,326,618 that were approved in FY 1999 decided to withdraw the requests because there was no secondary market for the loans.

  We discussed the lenders' complaints of no secondary market with RHS officials. They said a meeting was held with the Federal Home Loan Association (Freddie Mac) on April 13, 2000, and Freddie Mac officials expressed interest in handling GRRHP loans. However, at the end of August 2000, no agreement had been established with Freddie Mac to provide a secondary market for GRRHP loans.

- Problems with Sites – The proposed sites for 3 projects totaling $2,017,700 were either unacceptable for environmental reasons or ineligible. Examples were:

- A $276,000 project in Washington State was terminated because construction on the site would negatively impact salmon, an endangered species.

- A $695,700 project in Michigan was terminated because the site was in an ineligible non-rural area.

E. Lenders expressed doubt that guarantees for 4 projects totaling $6,975,000 would be used for reasons previously cited. Examples were:

- A lender approved for a $2,825,000 Michigan project was having difficulty finding a buyer for the loan in the secondary market. He told us to improve the marketability of the program, a 100-percent guarantee and a secondary market for the loans were needed.

- A lender received guarantees totaling $3,750,000 for 2 Indiana projects that were under construction. The lender, who did not plan to provide permanent financing for the projects, said that most banks or mortgage companies would only provide financing up to 10 years with a balloon note at the end. GRRHP regulations require that loans be fully amortized over 30 or 40 years and balloon notes are prohibited. At the end of the audit fieldwork, the borrower had temporary construction loans for both of the projects and was seeking a lender that would provide permanent financing for the projects.

F. Lenders said they planned to continue with 19 projects totaling $18,588,751 but had not submitted a formal application for the projects to RHS. In seven cases, the projects were under construction.

G. We were unable to determine the status of 6 proposed projects totaling $6,188,417. Lenders told us they did not know the status of the projects because they had no recent contact with borrowers/developers and were uncertain if the borrowers/developers planned to continue with the projects.

In summary, at least 78 of the 106 projects approved for the four years will probably not be financed through the GRRHP (See Table 4). RHS did not deobligate the $122.1 million committed to the 78 projects and attempt to redirect the unused guarantee authority to 75 other project requests received that were denied because of the lack of funds. (see table 6)

Table 6

FY	NOFA REQUESTS		
	RECEIVED	ACCEPTED	DENIED
1996	50	9	41
1997	22	18	4
1998	51	28	23
1999	58	51	7
TOTAL	181	106	75

At the March 8, 2001, exit conference and in a March 15, 2001, followup memorandum, RHS stated that a barrier to redirecting unused guarantee authority was that an average of between 18 and 24 months is required for a project to be constructed and reach sustained occupancy. RHS suggested that a solution to losing appropriate funds from a FY when lenders or developers decide not to go forward with a proposal is to have funding allocated as "No Year" funding. This would allow reuse of the returned guarantee commitments without any additional budget authority cost to the Government.

At the exit conference and in the followup memorandum, RHS also discussed actions taken to assess the program and remove several of the barriers which have restricted its use. Several of the more significant actions that RHS stated it has taken after our audit fieldwork follow:

- Obtained legislative changes in the program, including balloon loan authorization.

- Conducted a stakeholder's meeting to address the program's lack of support in the secondary market which included secondary market players, mortgage bankers, developers, interest groups, and representatives of congressional staffs to discuss the impediments to the purchase of GRRHP notes by secondary market investors.

- Drafted a Memorandum of Understanding with Freddie Mac, making it possible for Freddie Mac to use the program while the regulation changes are being developed. Freddie Mac has indicated that it anticipates being able to pool $25 million in GRRHP loans by the end of FY 2001.

RECOMMENDATION NO. 3

Perform a comprehensive evaluation of the program to (1) determine if it is feasible to further improve its marketability and (2) develop accurate data to justify future budget requests.

RD Response

In its May 24, 2001, response, RHS stated:

> *** * We recognize that there are issues with the program that needed to be resolved. As described in the previous recommendation [No. 2], the Agency has taken proactive measures to identify the issues, as evidenced by the minutes to the stakeholders meeting and the recommendations for action provided to the Acting Administrator of RHS, and to develop corrections to those issues, such as the regulation revisions and implementation of MOUs with the secondary market. As such, we suggest that we have already completed the Agency actions to this recommendation.*
>
> *In our earlier response to * * OIG after the exit conference, we had again stated that if the program funds could be appropriated as 'no year money' * * * the agency would be able to more efficiently use appropriated funds. Partly in an effort to determine how to obtain this change, Agency staff met with the General Counsel (OGC). As a result of our request, the OGC directed us to language in the appropriations bills that show that recent years' funds have in fact been appropriated as no year funds. We have attached a copy of 'Public Law 106-78 – October 22, 1999, Section 713' which shows the funds that are obligated will remain available until expended to cover obligation made in that fiscal year. We are working with OGC and our budget staff to propose the appropriate language to clearly state that the funds are 'no year money.' As we will now be able to administer the program in a manner that will let us recapture funds from projects that cannot go forward for whatever reason, we expect that appropriated funds will be used much more efficiently.*

OIG Position

We can accept management decision on this recommendation once the information requested regarding Recommendation No. 2 is received and timeframes for revising program policies and regulations are developed to implement the “no year” funding change.

RECOMMENDATION NO. 4

Include in the Notice to Proceed with Application Processing specific instructions and timeframes for lenders to (1) submit a completed loan guarantee application for proposed projects and (2) withdraw their requests.

RD Response

In its May 24, 2001, response, RHS stated, “This recommendation has already been implemented in the FY 2001 NOFA (copy attached).

OIG Position

A notice in the December 26, 2000, issuance of the Federal Register included the recommended action.

We agree with the management decision.

RECOMMENDATION NO. 5

Establish procedures and controls to track the status of approved projects to ensure that (1) loan guarantee applications are either submitted within required timeframes or withdrawn timely and (2) guarantee authority is deobligated and redirected to other projects timely.

RD Response

In its May 24, 2001, response, RHS stated:

> *This recommendation will be implemented in the summer of 2001 with the population and monitoring of the GLS automation tool. The second part of this recommendation was captured in ‘RECOMMENDATION 4.’ It is recommended that the agency request the past funding and all future funding be declared no year money so that it can be deobligated and directed with out loss of funds due to getting into another fiscal year.*

OIG Position

We agree with the management decision regarding the first part of the recommendation. Regarding the second part, we will need evidence that "no year" funding will be implemented (See Recommendation No. 3) and plans and timeframes for establishing controls to deobligate and redirect unused guarantee authority to other projects.

EXHIBIT A – RURAL HOUSING SERVICE'S RESPONSE TO THE DRAFT REPORT

USDA

MAY 24 2001

United States Department of Agriculture

Rural Development

Operations and Management

Washington, DC 20250

SUBJECT: Rural Housing Service
Guaranteed Multi-Family Housing Loans
(Audit No. 04099-001-AT)

TO: Richard D. Long
Assistant Inspector General
for Audit
Office of Inspector General, USDA

Attached for your information is a memorandum dated May 23, 2001, with accompanying attachments, from Obediah G. Baker, Jr., Deputy Administrator, Multi-Family Housing, responding to Recommendations 1, 2, 3, 4, and 5, of the subject audit.

This response is being submitted to reach management decision on the aforementioned recommendations.

If you have any questions, please contact Betty O'Loughlin of my staff at 692-0085.

LEROY JONES
Acting Director
Financial Management Division

Attachments

EXHIBIT A – RURAL HOUSING SERVICE'S RESPONSE TO THE DRAFT REPORT (CONTINUED)

USDA

United States Department of Agriculture
Rural Development

Rural Business–Cooperative Service • Rural Housing Service • Rural Utilities Service
Washington, DC 20250

TO:	Leroy Jones Acting Director Financial Management Division
ATTENTION:	Betty O'Loughlin
THROUGH:	Obediah G. Baker, Jr. Deputy Administrator Multi-Family Housing
FROM:	Carl W. Wagner Director Multi-Family Processing Division
SUBJECT:	Agency Response to the Audit of Rural Housing Service Guaranteed Multi-Family Housing Loans (Audit No. 04099-01-AT)

MAY 23 2001

RECOMMENDATION NO. 1 - Agency Response: We continue to disagree with the OIG on the content of reporting to Congress on program accomplishments. We do agree that a literal reading of the language in the GPRA reports would lead one to believe that the number of units stated had actually been constructed. The Agency acknowledges that the label of the report could be misleading. However, the agency reports program results to Congress and the Office of Management and Budget (OMB) on the basis of loan obligations or commitments for loan guarantees for financing made during the course of the report year. The reports issued provide the number of loan obligations or guarantees made and then list the number of units in each of the project for which funds were obligated or guarantees committed. The program results are reported this way because of the long development and construction processes discussed in item 4 in our previous response to OIG after the exit conference. If we did not report obligations and guarantee commitments, and instead only reported constructed projects, we would be reporting activities that were awarded up to two years prior. In particular, with the section 538 program with average loan guarantee commitment to occupancy timeframes of 18 to 24 months, the Agency would never be able to report any accomplishments in the current year of appropriation. Congress, OMB and the Departmental budget office understand the Agency reporting practice and have allowed the Agency to use it for years.

Furthermore, in researching the requirements for GPRA reporting, we found no requirement that stated that the only method in which program progress could be measured was projects and units actually built. As such, the Agency intends to continue to report loan obligations made and loan guarantees committed for the reporting years. *However, we will ensure that the report is properly labeled to reflect what is being reported. In addition, we will include a table showing the number of projects and units constructed and occupied for prior appropriation years. The timeframe for completion will be with issuance of the Agency FY 2001 GPRA report.*

"RECOMMENDATION NO. 2" - Agency Response: The Agency has continually worked with stakeholders under the program and has been informed repeatedly that there exists a great need for the program. The continued oversubscription of guarantee applications to funds available is evidence of this need. Subsequent to the time the auditors interviewed staff and stakeholders to gather information for the audit, the Agency, in a proactive effort to determine how best to improve the program, held a significant full day stakeholder session on December 5, 2000. Attendees included lenders, developers, industry groups, secondary market representatives and other state and federal agency representatives. The results of that meeting were a list of initiatives that all parties involved thought could be implemented without significant hardship. Since that date, the Agency has proceeded on three fronts. First, it is revising its regulations to incorporate the recommendations of the group. Second, it is in the process of developing Memorandums of Understanding with each of the three major secondary market purchasers of the loans, Freddie Mac, Ginnie Mae and Fannie Mae. Each are in varying stages of development, but the first MOU is very close to being executed. Thirdly, the Agency obtained statutory modifications to the program that the group thought important with passage of the American Homeownership and Economic Opportunity Act of 2000, P.L. 106-569. These modifications to the regulations are in the clearance process and will be issued; summer of 2001, as Interim Final Rule changes.

The recommendation given by OIG is good advice. We will continue to work with stakeholders to improve our program as we do with each of our programs. *However, we find it impossible to provide specific actions and times for this recommendation, as the Agency is committed to continually work with stakeholders to improve the program so long as it is authorized.*

"RECOMMENDATION NO. 3" - Agency Response: As stated in our earlier response to OIG after the Exit Conference, we recognize that there are issues with the program that needed to be resolved. As described in the previous recommendation, the Agency has taken proactive measures to identify the issues, as evidenced by the minutes to the stakeholders meeting and the recommendations for action provided to the Acting Administrator of RHS, and to develop corrections to those issues, such as the regulation revisions and implementation of MOUs with the secondary market. *As such, we suggest that we have already completed the Agency actions to this recommendation.*

We must again state that one of the overriding concerns OIG appears to have in the audit is the lack of guarantee commitments that result in constructed projects and the inability of the Agency to be able recapture such funds and reuse them. In our earlier response to OIG after the exit conference, we had again stated that if the program funds could be appropriated as "no year money" and be able to be recaptured and reobligated subsequent to the end of the fiscal year the funds were appropriated in, the Agency would be able to more efficiently use appropriated funds. Partly in an effort to determine how to obtain this change, Agency staff met with the Office of General Counsel (OGC). As a result of our request, the OGC directed us to language in the appropriations bills that show that recent years' funds have in fact been appropriated as no year funds. We have attached a copy of "Public Law 106-78—Oct. 22, 1999, Section 713" which shows the funds are obligated will remain available until expended to cover obligation made in that fiscal year. We are working with OGC and our budget staff to propose the appropriate language to clearly state that the funds are "no year money". As we will now be able to administer the program in a manner that will let us recapture funds from projects that cannot go forward for whatever reason, we expect that appropriated funds will be used much more efficiently.

The OIG also mentioned that they conducted interviews with several lenders and developers who stated that they were unable to make the program work for their deals. We again ask that we be provided with the work papers, specifically the records of the phone calls to the lenders and developers, to follow-up on these statements.

"RECOMMENDATION NO. 4" - Agency Response: This recommendation has already been implemented in the FY 2001 NOFA (copy attached).

"RECOMMENDATION NO. 5" - Agency Response: This recommendation will be implemented in the summer of 2001 with the population and monitoring of the GLS automation tool. The second part of this recommendation was captured in "RECOMMENDATION 4". It is recommended that the agency request the past funding and all future funding be declared no-year money so that it can be deobligated and directed with out loss of funds due getting into another fiscal year.

If you have any questions or would like clarification of a particular statement in this memo contact Carl W. Wagner at (202) 720-1610 or fax (202) 690-3444 or e-mail cwagner@rdmail.rural.usda.gov.

113 STAT. 1162 PUBLIC LAW 106–78—OCT. 22, 1999

Provided, That notwithstanding section 1462 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (7 U.S.C. 3310), funds provided by this Act for grants awarded competitively by the Cooperative State Research, Education, and Extension Service shall be available to pay full allowable indirect costs for each grant awarded under the Small Business Innovation Development Act of 1982, Public Law 97–219 (15 U.S.C. 638).

SEC. 712. Notwithstanding any other provision of this Act, all loan levels provided in this Act shall be considered estimates, not limitations.

Effective date.

SEC. 713. Notwithstanding any other provision of law, effective on September 29, 1999, appropriations made available to the Rural Housing Insurance Fund Program Account for the costs of direct and guaranteed loans and to the Rural Housing Assistance Grants Account in fiscal years 1994, 1995, 1996, 1997, 1998, and 1999 shall remain available until expended to cover obligations made in each of those fiscal years respectively with regard to each account.

SEC. 714. Appropriations to the Department of Agriculture for the cost of direct and guaranteed loans made available in fiscal year 2000 shall remain available until expended to cover obligations made in fiscal year 2000 for the following accounts: the rural development loan fund program account; the Rural Telephone Bank program account; the rural electrification and telecommunications loans program account; the Rural Housing Insurance Fund Program Account; and the rural economic development loans program account.

SEC. 715. Such sums as may be necessary for fiscal year 2000 pay raises for programs funded by this Act shall be absorbed within the levels appropriated by this Act.

SEC. 716. Notwithstanding the Federal Grant and Cooperative Agreement Act, marketing services of the Agricultural Marketing Service; Grain Inspection, Packers and Stockyards Administration; the Animal and Plant Health Inspection Service; and the food safety activities of the Food Safety and Inspection Service may use cooperative agreements to reflect a relationship between the Agricultural Marketing Service; the Grain Inspection, Packers and Stockyards Administration; the Animal and Plant Health Inspection Service; or the Food Safety and Inspection Service and a State or Cooperator to carry out agricultural marketing programs, to carry out programs to protect the Nation's animal and plant resources, or to carry out educational programs or special studies to improve the safety of the Nation's food supply.

SEC. 717. Notwithstanding any other provision of law (including provisions of law requiring competition), the Secretary may enter into cooperative agreements (which may provide for the acquisition of goods or services, including personal services) with a State, political subdivision, or agency thereof, a public or private agency, organization, or any other person, if the Secretary determines that the objectives of the agreement will: (1) serve a mutual interest of the parties to the agreement in carrying out the Wetlands Reserve Program; and (2) all parties will contribute resources to the accomplishment of these objectives: *Provided*, That Commodity Credit Corporation funds obligated for such purposes shall not exceed the level obligated by the Commodity Credit Corporation for such purposes in fiscal year 1998.

SEC. 718. None of the funds in this Act may be used to retire more than 5 percent of the Class A stock of the Rural Telephone

EXHIBIT A – RURAL HOUSING SERVICE'S RESPONSE TO THE DRAFT REPORT (CONTINUED)

81650 Federal Register / Vol. 65, No. 248 / Tuesday, December 26, 2000 / Notices

maximum grant level, if any. For FY 2001, $8,000,000 is available for the Housing Preservation Grant Program. A set aside of $600,000 has been established for grants located in Empowerment Zones, Enterprise Communities, and REAP Zones and $6,600,000 has been distributed under a formula allocation to States pursuant to 7 CFR part 1940, subpart L, "Methodology and Formulas for Allocation of Loan and Grant Program Funds". Decisions on funding will be based on preapplications.

Dated: December 15, 2000.

James C. Kearney,

Administrator, Rural Housing Service.

[FR Doc. 00–32623 Filed 12–22–00; 8:45 am]

BILLING CODE 3410–XV–U

DEPARTMENT OF AGRICULTURE

Rural Housing Service

Notice of Availability of Funding and Requests for Proposals for Guaranteed Loans Under the Section 538 Guaranteed Rural Rental Housing Program

AGENCY: Rural Housing Service, USDA.

ACTION: Notice.

SUMMARY: This Notice of Fund Availability (NOFA or Notice) announces the timeframe and submission requirements and deadlines to submit proposals in the form of "NOFA responses" for the section 538 Guaranteed Rural Rental Housing Program (GRRHP). Eligible lenders, as defined in paragraph IX.(D) of this NOFA, are invited to submit NOFA responses for the development of affordable rental housing to serve rural America. Only responses submitted by eligible lenders, on the lender's letterhead, and signed by both the applicant and the lender will be reviewed. This Notice describes the overall NOFA response and application process, including the selection and identification of any priorities for selection of NOFA responses, and the process by which the Rural Housing Service (RHS or Agency) will score and rank the NOFA responses. Information will also be included concerning the submission requirements. Lenders may submit a complete application concurrently with the NOFA response.

DATES: The Fiscal Year (FY) 2001 program dollars will be allocated through a continuous selection process. On a monthly basis starting with the third Thursday of January (January 18, 2001) and each third Thursday of the month through August 16, 2001, or until all funds are expended, the agency will review all NOFA responses that have been received monthly.

Lenders will submit responses that are ready to be processed to a complete application once the NOFA selection is made. NOFA responses will be reviewed for completeness and eligibility, and if so deemed, lenders will be requested to submit a full application and the required application fee of $2,500.00 within 90 days of selection, if not already submitted.

Applications will be sent to the Rural Development State office in which the project is located. If an application is not submitted within 90 days from the date of the letter notifying the lender of the NOFA selection, the selection is subject to cancellation, thereby allowing another NOFA response that is ready to proceed with processing to be selected. A completed application may be submitted with the NOFA response. However, a completed application and application fee must be submitted by the August 16, 2001 NOFA response date. The deadline for receipt of NOFA responses is 4:00 PM, Eastern Standard or Daylight Time, whichever is then applicable, each third Thursday of the month. Lenders intending to mail a NOFA response must provide sufficient time to permit delivery on or before the closing deadline date and time. Acceptance by a U. S. Post Office or private mailer does not constitute delivery. Postage due NOFA responses or applications will not be accepted. NOFA responses received after the deadlines previously mentioned and before August 16, 2001, will be held for the next month's review if funds remain. The NOFA submission deadline dates are as follows:

- Thursday, January 18, 2001, 4:00 P.M. EDT/EST
- Thursday, February 15, 2001, 4:00 P.M. EDT/EST
- Thursday, March 15, 2001, 4:00 P.M. EDT/EST
- Thursday, April 19, 2001, 4:00 P.M. EDT/EST
- Thursday, May 17, 2001, 4:00 P.M. EDT/EST
- Thursday, June 21, 2001, 4:00 P.M. EDT/EST
- Thursday, July 19, 2001, 4:00 P.M. EDT/EST
- Thursday, August 16, 2001, 4:00 P.M. EDT/EST

When all funds have been exhausted, a notice will be placed in the **Federal Register** to notify the public.

ADDRESSES: Responses for participation in the program must be identified as "Section 538 Guaranteed Rural Rental Housing Program" on the envelope and be submitted to: Director, Multi-Family Housing Processing Division, Rural Housing Service, U.S. Department of Agriculture, Room 1263 (STOP 0781), 1400 Independence Ave. SW, Washington, DC 20250–0781.

FOR FURTHER INFORMATION CONTACT: Joyce Allen, Deputy Director, Guaranteed Loans, Multi-Family Housing Processing Division, U.S. Department of Agriculture, South Agriculture Building, Room 1271, STOP 0781, 1400 Independence Ave. SW, Washington, DC 20250–0781. E-mail: jallen@rdmail.rural.usda.gov. Telephone: (202) 690–4499. This number is not toll-free. Hearing or speech impaired persons may access that number by calling the Federal Information Relay Service toll-free at (800) 877–8339.

SUPPLEMENTARY INFORMATION: The GRRHP is operated under 7 CFR part 3565. The Guaranteed Rural Rental Housing Program Origination and Servicing Handbook (HB–1–3565) is available to provide lenders and the general public with the "how to" administrative guidance needed to administer the program. HB–1–3565, which contains a copy of 7 CFR part 3565 in Appendix 1, may be found on the Rural Development Regulation web site internet address of "http://rdinit.usda.gov/regs" or copies may be obtained from the Rural Housing Service Multi-Family Housing Processing Division at 202–720–1604. This is not a toll-free number. Hearing- or speech-impaired persons may access that number by calling the Federal Information Relay Service toll-free at (800) 877–8339.

Discussion of Notice

I. Purpose and Program Summary

On March 28, 1996, President Clinton signed the Housing Opportunity Program Extension Act of 1996, Public Law 104–120, authorizing the section 538 Guaranteed Rural Rental Housing Program (GRRHP). The program is designed to increase the supply of affordable multi-family housing through partnerships between Rural Housing Service (RHS) and major lending sources, as well as state and local housing finance agencies and bond issuers. Tax exempt financing can be used as a source of capital for the guaranteed loan. Qualified lenders will be authorized to originate, underwrite, and close loans for multi-family housing projects requiring new construction or acquisition with rehabilitation of at least $15,000 per unit when the acquisition results in the creation of new affordable housing units. RHS may guarantee such

ABBREVIATIONS