U.S. Department of Agriculture

Office of Inspector General

Rural Business-Cooperative Service's - Intermediary Relending Program

Audit Report 34601-6-At
June 2010

U.S. Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: June 25, 2010

REPLY TO
ATTN OF: 34601-6-At

TO: Judith Canales
Administrator
Rural Business-Cooperative Service

ATTN: John Purcell
Director
Financial Management Division

FROM: Gil H. Harden /S/
Assistant Inspector General
for Audit

SUBJECT: Intermediary Relending Program

This report presents the results of the subject audit. Your written response to the audit, dated April 29, 2010, is attached with excerpts and the Office of Inspector General's (OIG) Position incorporated into the relevant Findings and Recommendations sections of the report.

We agree with your management decision on four of the report's eight recommendations. However, we are unable to accept management decision on Recommendations 1, 4, 6, and 8. Documentation and actions needed to reach management decision for these recommendations are described in the OIG Position sections of the report.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframes for implementing the recommendations for which management decision has not been reached. Please note that the regulation requires a management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Performance and Accountability Report. Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer.

We appreciate the courtesies and cooperation extended to us by members of your staff during this audit.

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Rural Business Cooperative Service's – Intermediary Relending Program

Executive Summary

The Rural Business-Cooperative Service (RBS) administers the Intermediary Relending Program (IRP), which provides initial 30-year loans at 1-percent interest to intermediary relenders (intermediaries) that in turn lend the money at higher (but still reasonable) rates to ultimate recipients (borrowers) for small rural businesses. As borrowers repay, intermediaries use the money to pay back RBS and to establish revolving fund accounts for making loans to other rural borrowers. IRP's main goal is to alleviate poverty by increasing rural employment and to accomplish this, RBS has made 1,032 IRP loans totaling over $750 million as of September 2009. Our audit examined the agency's controls over IRP to determine if they adequately ensure that program funds go to whom and for what they are intended.

While nothing indicated that RBS did not satisfactorily secure, disburse, and service IRP loans, we concluded that the agency must monitor intermediaries more effectively to ensure they make loans to eligible borrowers for authorized purposes. Specifically, two interlocking layers of controls designed to oversee intermediaries' lending practices—intermediary lending reports and agency site visits—do not target important IRP requirements.[1] For example, intermediaries' reports estimate rural jobs that IRP borrowers will create or save with their loans, but RBS does not adequately verify that these jobs were actually created or saved, which weakens its ability to assess the program's performance.

RBS has identified intermediary lending reports as critical reports for tracking information within the IRP. In 2000, RBS' national office issued guidance to its State offices which stated that these reports should be reviewed for loan eligibility. However, RBS did not include elements regarding eligibility in the lending report forms filled out by intermediaries and the notice expired within a year. Similarly, a 2001 RBS notice stated that annual site visits to intermediaries were "essential to ensure that funds are being used for intended purposes," but the agency's notice did not instruct officials to look at loan purposes when reviewing loan files. The checklist that guides RBS' State office staff's annual site visits is also silent about determining if basic program requirements are met.[2] For example, officials are not required to determine if loans are made in rural areas, under IRP's loan limits, and to borrowers who could not get credit elsewhere. As a result of these inadequate monitoring mechanisms, RBS did not detect that three intermediaries made eight loans totaling $924,000 for ineligible purposes (e.g., a golf course) and two intermediaries made four loans totaling $475,000 to non-rural borrowers.

These oversight controls are particularly important because intermediaries claim confusion over contradictory language in program regulations about the requirements for revolved funds (the money that borrowers pay back to intermediaries). The regulations define revolved funds as "not Federal" but then go on to specify Federal requirements for how this money can be used. For

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[1] The lending report, Form 1951-4, is titled "The Report of IRP/Rural Development Loan Fund Lending Activity." It includes such loan information as the amount of the IRP loan drawn down by the intermediary, the amount disbursed to borrowers, the principal of loan payments received from borrowers, balance sheet information, and recent loans made to borrowers.
[2] The checklist is titled "Field Site Review" (Form 1951-5).

example, the regulation states that IRP funds may not be loaned to a borrower that has previous loans with a total outstanding balance of $250,000. However, intermediaries made loans with revolved funds that pushed their borrowers' loans over $250,000 because the intermediaries thought revolved funds did not count against the IRP limit since they were "not Federal." In total, the conflicting regulatory language led four of the six intermediaries we reviewed to make 23 loans (totaling $6.5 million) that were over the IRP limit. Agency officials acknowledged the confusion about the contradictory definition of revolved funds as "not Federal," but they were not able to explain why the misleading language had been left in the IRP regulations.

We also found that two intermediaries did not timely relend revolved funds, totaling over $1.7 million, which had accumulated in their accounts. One intermediary did not make any loans for over 5 years despite having $500,000 in revolved funds from its initial loans. The other had $1.2 million in revolved funds available for lending, but received another $500,000 loan from RBS without promptly relending funds in the revolving account. This occurred because IRP regulations do not require intermediaries to actively market or timely relend their revolved funds. RBS officials agreed that IRP regulations need to be updated to address these concerns. As a result, RBS is vulnerable to having IRP money remain idle in accounts by intermediaries who choose earning interest[3] from revolved funds, rather than putting them back to work creating rural jobs.

Recommendation Summary

We recommend that RBS recover the loans that were not made according to program rules from intermediaries. To strengthen its control over the program, the agency should remove the "not Federal" definition of revolved funds from IRP regulations and ensure its monitoring mechanisms target key IRP requirements. To better assess program performance, the agency should implement a system to verify rural jobs created with IRP loans. RBS should define "prompt" relending and issue guidance about intermediaries' qualifying for additional loans while they have revolved funds.

Agency Response

In its April 29, 2010, written response to the draft report, RBS generally agreed with all eight of the report's recommendations. For two of the recommendations, RBS will work in consultation with the Office of the General Counsel (OGC) to determine the appropriate action to take on $7.9 million in ineligible loans and the appropriate action to take as it relates to the policy on "Federal Funds." We have incorporated RBS' response in the findings and recommendations section of this report, along with the OIG Position. RBS' response to the official draft is included in its entirety at the end of this report.

[3] The interest remains part of the IRP revolving fund until the loan is repaid to RBS by the intermediary.

OIG Position

Based on RBS' response, we were able to reach management decision on four of the eight recommendations. For Recommendations 1 and 4, RBS needs to provide documentation of OGC's determination and planned corrective action based on the determination. For Recommendations 6 and 8, RBS needs to provide additional information, as well as a timeframe for corrective action for Recommendation 6. The OIG Position details the information needed to reach management decision on the remaining four recommendations.

Background & Objectives

Background

The Intermediary Relending Program's (IRP) central goals are to alleviate poverty and to increase economic activity and employment in rural communities through financing that targets small, rural businesses. To do this, the Rural Business-Cooperative Service (RBS) makes IRP loans at 1-percent interest to intermediaries (e.g., non-profits or public agencies), which qualify based on a demonstrated need for the funds, a plan to use them, and the ability to administer loans according to regulatory requirements. Intermediaries must then relend these initial loan funds at reasonable rates to borrowers who are starting or improving businesses.[4] Borrowers may be individuals, public or private organizations, or other legal entities, and must be located in a rural area.[5] As of September 2009, RBS had made 1,032 IRP loans totaling over $750 million.

Intermediaries develop their own application procedures for borrowers, but cannot loan more than $250,000 or 75 percent of the total project cost, whichever is less. Borrowers must show that they are not able to obtain credit elsewhere at reasonable rates to be eligible to receive an IRP loan. The loans can be used to start new businesses, expand existing ones, and to create or save existing jobs. For example, a borrower can use IRP loan funds to purchase and develop land, pay business start-up costs, and establish working capital for authorized projects. Regulations prohibit making IRP loans for some purposes, such as golf courses.

As borrowers repay, intermediaries use the money to establish revolved loan fund accounts and to pay back RBS. Any revolved funds beyond those needed for certain operating expenses (e.g., administrative costs) are to be used to make more loans to eligible borrowers.[6] However, the rules governing the revolved funds that intermediaries receive from borrowers are somewhat different from those for the initial loan funds that intermediaries receive from RBS.

Most significantly, an intermediary must have RBS' prior agreement before making loans with its initial funds. The intermediary must certify to RBS that the loan is for eligible purposes and must include copies of sufficient material from the borrower's application so the agency can determine the loan's purpose and the project's location, nature, and scope. Loans made with revolved funds, on the other hand, do not need RBS' prior concurrence. Instead, the intermediary itself is expected to ensure the loans are made according to regulation. In either case, intermediaries must maintain documents in their loan files which support that the loans meet program requirements (e.g., borrowers' certifications that they could not get credit elsewhere).

Through lending activity reports, RBS State officials are to keep track of intermediaries' lending practices with both revolved and initial funds. These reports summarize the IRP funds that intermediaries have loaned out and detail the status of such things as their loan portfolios,

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[4] Title 7 *Code of Federal Regulations* (CFR) §4274.325, "Interest Rates," states that interest rates charged to borrowers are to be negotiated between the intermediary and borrower but must be within limits approved by RBS; the rate should normally be the lowest that covers the intermediaries' debt service costs, reserve for bad debts, and administrative costs (January 2007).

[5] IRP defines rural as any area that is not inside the outer boundary of a city with a population of 25,000 or more.

[6] Revolved funds can be used for debt service, reasonable administrative costs, reserves, and for making additional loans (7 CFR §4274.332(b)(1), "Post Award Requirements" (January 2007).

administrative costs, and funds available for relending. New intermediaries must send lending activity reports to their RBS' State office quarterly while others submit biannually.[7] Essentially, the reports give RBS a snapshot of the status of loans in an intermediary's portfolio.

RBS supplements this oversight through annual site visits to each intermediary. These visits are intended to determine if the intermediary is (1) using its RBS loan in accordance with program requirements, (2) following its agreed-upon plan for lending out the money to borrowers, and (3) complying with the provisions of its loan agreement with RBS. A checklist guides RBS State office staff as they conduct their onsite reviews.[8]

Objectives

Our overall audit objective was to examine RBS' internal controls over IRP to determine if they are sufficient to ensure that loan funds are being spent according to program requirements. More specifically, we examined controls for ensuring that (1) loans were made to eligible borrowers for eligible purposes; (2) liens were in place to secure the loans; (3) loan disbursements were made in accordance with the regulations; and (4) appropriate servicing actions were taken to assure collections on loans, including delinquencies and loan defaults.

[7] Intermediaries' lending reports are required quarterly during the first year after receiving their loan from RBS. If intermediaries do not use all the money in that first year, quarterly reports continue until they loan at least 90 percent of it to borrowers. After, reports are required biannually.
[8] The checklist is titled "Field Site Review" (Form 1951-5).

Section 1: Oversight

Finding 1: RBS Should Improve How It Monitors Intermediaries' Lending Practices

We reviewed 435 loans that intermediaries made and found that 33 did not comply with IRP requirements, such as loan limit, purpose, or eligibility. This occurred because controls that should have gathered information sufficient for RBS to monitor intermediaries do not obtain key facts necessary for adequate oversight. For example, intermediaries' lending reports do not include sections for loan purpose or borrower eligibility.[9] RBS officials generally agree that the agency's oversight controls can be improved by incorporating important regulatory requirements in the intermediary lending reports and site visit checklists. The agency plans to improve these controls when they are automated in the spring of 2010. However, RBS acknowledges that competing priorities have pushed the automation date back several times. As a result, without interim improvements, the agency is not well-positioned to ensure intermediaries lend program funds as intended, which is evidenced by the total $7.9 million in improper loans that went undetected (see exhibit A).[10]

In *Management's Responsibility for Internal Control*, the Office of Management and Budget (OMB) tasks agencies with establishing internal control systems that ensure programs achieve their intended purpose.[11] Once implemented, agencies must continuously evaluate these systems to identify weaknesses and strengthen them so risks are mitigated. In part, RBS has accomplished this by instituting two interlocking layers of controls to oversee intermediaries: lending activity reports and site visit checklists.

The lending reports help RBS monitor the status of intermediaries' loan portfolios. RBS has identified these as critical reports for tracking information within the IRP. In 2000, RBS' national office issued guidance to its State offices which stated that these reports should be reviewed to ensure that intermediaries' loans met IRP eligibility and purpose requirements. Similarly, in 2001, the agency stated that annual onsite reviews of intermediaries are "essential to ensure that funds are being used for intended purposes."

Together, the two oversight controls should allow RBS to monitor intermediaries' IRP compliance by combining an ongoing overview of lending practices with annual onsite corroboration, but they do not target central IRP requirements. The lending report, for example, does not include elements related to loans' purposes or borrowers' eligibility. The site visit checklist does not direct RBS staff to verify that IRP loans are going to rural areas and are being used for allowable purposes. By not incorporating these purpose and eligibility elements into its monitoring controls, RBS did not detect eight loans totaling $924,431 (see exhibit C) that were made for ineligible purposes (e.g., a golf course), and four loans totaling $475,000 that were made to borrowers who were not located in rural areas (see exhibit E).

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[9] The lending report, Form 1951-4, is titled, "The Report of IRP/ Rural Development Loan Fund Lending Activity." It includes such loan information as the amount of the IRP loan drawn down by the intermediary, the amount disbursed to borrowers, the principal of loan payments received from borrowers, balance sheet information, and recent loans made to borrowers.
[10] The six intermediaries we visited had loaned a combined total of $43.6 million to borrowers.
[11] *OMB Circular A-123*, revised December 21, 2004.

In addition, the lending report and site visit checklist do not highlight IRP's loan limit ($250,000) for review. Ensuring intermediaries follow this provision is particularly important because they claim confusion over contradictory language in program regulations about the requirements for revolved funds (the money borrowers repay to intermediaries). IRP's regulations define revolved funds as "not Federal funds," but then proceed to lay out Federal requirements for how these funds must be used as long as the loan to the intermediary is outstanding. For example, the regulations require that loans made from both initial funds (the money RBS loans to intermediaries) and revolved funds adhere to the $250,000 outstanding loan limit. However, intermediaries made loans using revolved funds that pushed borrowers over the limit because they thought that revolved funds were exempt from the requirement since another section of the regulation defines those funds as "not Federal." In our review, 4 of 6 intermediaries claimed the conflicting regulatory language led them to make 23 loans—totaling over $6.5 million—whose revolved fund portion drove the borrower's total outstanding balance over $250,000 (see exhibit D).

We discussed the contradictory definition of revolved funds as "not Federal" with agency officials who acknowledged that it is a source of confusion. They were not able to explain why the misleading language had been left in IRP regulations, which were revised in 1998 to clarify the requirements for revolved funds. They noted, though, that they were in the process of identifying needed changes to the regulation. We agree that changes should be made to better clarify the regulation and recommend that RBS recover the ineligible loans in addition to establishing a timeframe for removing the definition of revolved funds as "not Federal." In the interim, we recommend that RBS include an element in its annual site visit checklist that targets loans involving revolved funds for review.

The agency can also strengthen its ability to monitor intermediaries' compliance with IRP by incorporating other key requirements into both the checklists and the lending reports. In general, RBS officials agree that these controls should be strengthened, and plan to do so when they automate these controls, which is expected to happen in spring 2010. Since the automation project is not directly under RBS' control and has already been delayed due to other priorities (e.g., the 2008 Farm Bill), we recommend that the agency make interim improvements that can then be included in the automated versions.[12] RBS will also need to provide direction to its State offices about how to verify the information it gathers.

Currently, RBS focuses on testing the accuracy of financial data, but not information related to program purpose and eligibility. For example, RBS requires each intermediary to obtain an annual audit, which includes "tests for accuracy of [financial] information," but the agency largely relies on unverified certifications and other data submitted by intermediaries and borrowers supporting that their practices conform to IRP requirements. According to RBS national office officials, State offices may visit borrowers to verify their information based on the "specific weakness of a given intermediary," but has neither documented guidance nor a systematic process for selecting borrowers (e.g., a formal spot check process designed through risk assessment). As agency officials responded in discussing this issue, "any Agency must trust in the applicant . . . to meet their level of responsibility." While we agree that IRP participants

[12] RBS' Specialty Programs Division and Rural Development's Deputy Chief Financial Officer have been tasked with this project.

are primarily responsible for submitting accurate information, RBS remains accountable for strengthening its controls to provide an adequate level of assurance that IRP funds are being spent to achieve the program's purposes.

For example, IRP's primary goal is to alleviate poverty and to increase economic activity and employment in rural communities. In part, the program works toward this by restricting its loans to those borrowers who need them most—those who cannot get credit elsewhere. The central measure of the program's success in helping these rural borrowers is the number of jobs they create with their IRP loans. However, RBS does not have adequate controls to accurately capture this information.

Instead, the agency has notified its State office reviewers to rely on borrowers' certifications that they could not get credit elsewhere at reasonable rates (IRP's requirement). Yet in our interviews with 15 borrowers, 9 stated either that they could have obtained loans from other sources or that they had not tried. While this does not constitute proof that the borrowers could have obtained reasonable loans elsewhere, it does suggest that RBS needs to institute a system capable of giving it more assurance that program funds are going to whom they are intended and are being used to meet program objectives.

Similarly, intermediaries' lending reports include the number of jobs created through their IRP loans, and RBS' staff is responsible for verifying during site visits that those jobs were actually created. At the time of our review, RBS had not issued guidance to field staff instructing them on the proper procedures for verifying these jobs. Consequently, we found that during site visits RBS' staff was using the number of jobs created from the lending report (which they are instructed to bring along) to complete the site visit checklist, rather than verifying the actual number of jobs created or saved. The data is later entered—as verified—into a loan information database, Guaranteed Loan System (GLS).[13]

Subsequent to our fieldwork, RBS issued guidance to field staff requiring verification and documentation of job projection data against actual job creation and retention activity. The guidance stated that documentation may consist of lending reports signed by the intermediary, copies of employment and time and attendance records, site visit notes/reports, or other appropriate records. This guidance further directed field staff to review the employment records during site visits and change any incorrect job information in GLS. However, because this guidance was issued as an unnumbered letter and expired after 1 year, we believe that the guidance should be reiterated and made a part of the regulatory instructions for the IRP program. In determining if RBS' jobs-created data were accurate, we visited 41 borrowers and found that 32 had a different number of employees for IRP projects than that reported in the agency's database. Where RBS showed a total 1,456 verified jobs, the borrowers reported 951 (a 35 percent difference). In some cases, the two numbers differed significantly. For example, one borrower reported 39 employees on an IRP project while RBS listed 163 jobs as verified.

[13] GLS is an online transaction entry and inquiry financial and accounting system. GLS provides Government users pre-application and application processing, loan making and loan servicing transaction updates, portfolio management, lender management, daily register, balancing, and program reporting; and fiscal and financial reporting. We did not assess activities or internal controls of this computer-based application.

Currently, RBS does not use the jobs-created data to report on IRP's success and so discrepancies like those above have little effect on the program. Instead, the agency calculates its jobs-created performance and accountability reporting to Congress and the public based on an outdated formula that estimates jobs created over the IRP loans' 30-year term. RBS plans to switch to a more accurate economic model in FY 2012.[14, 15] This model will use actual jobs-created, as verified by RBS to calculate IRP's employment impact.[16] Accordingly, we recommend that RBS prepare for the new jobs-created model by providing regulatory guidance on how intermediaries and agency staff are to verify jobs created through IRP loans.

More generally, given the high number of borrowers in the program (more than 1,000 in FY 2009 alone), RBS State office staff cannot reasonably be expected to verify every piece of information submitted by each borrower. We agree with the agency that verification must ultimately be based on need—the relative strengths and weaknesses of intermediaries and borrowers. However, we recommend that the agency formalize the process by developing guidance that instructs its staff when circumstances warrant visiting borrowers, how many borrowers to visit, and what information needs to be verified.

Taken together, these steps (incorporating central IRP requirements into RBS' monitoring controls, removing the misleading definition of revolved funds as "not Federal," and developing guidance on how to ensure that IRP funds are going to eligible borrowers and projects) should improve the agency's ability to ensure that IRP is achieving its main objective of alleviating poverty in rural areas.

Recommendation 1

Recover $7.9 million from intermediaries that made loans to borrowers for ineligible purposes, amounts, and non-rural areas.

Agency Response

In its April 29, 2010, response, RBS stated:

"The Agency will work in consultation with Office of the General Counsel to determine the appropriate action to be taken on loans made for ineligible purposes, amounts, and in non-rural areas. This action is to be completed by October 30, 2010."

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[14] The Socio-Economic Benefits Assessment System (SEBAS) is an evaluation measurement tool designed to model each rural county's unique economy (using Department of Labor and Department of Commerce's Bureau of Economic Analysis information) and compute the local, regional, and State economic impact of IRP investments. SEBAS will provide a state-of-the-art analysis of such things as Gross Domestic Product contribution, job creation, quality of jobs created, and contributions to local taxes. We did not assess activities or internal controls of this economic model.
[15] Implementation of SEBAS for the IRP was completed in FY 2008. However, the performance goals for each year will continue to be calculated in the previous format. Due to the lack of consecutive years of data in SEBAS, adjustments to the goals will need to be made until FY 2012.
[16] This model will evaluate not only the number of jobs created or saved, but will also estimate the types and quality of jobs affected directly and indirectly due to RBS' lending activities, as well as calculate the impact on local taxes collected and changes in Gross Domestic Product for each area.

OIG Position

We cannot accept RBS' management decision for this recommendation. In order to reach management decision, please provide documentation of the OGC determination. If it is determined that recovery is appropriate, provide copies of bills for collection showing that an account receivable has been established to recover ineligible loans.

Recommendation 2

Incorporate key IRP elements, such as loan purpose and eligibility into intermediaries' lending reports.

Agency Response

In its April 29, 2010, response, RBS stated:

"The Agency agrees that incorporation of key elements into the lending reports should take place and is currently pursuing changes to the reporting requirements. This action is to be completed by October 30, 2010."

OIG Position

We accept RBS' management decision for this recommendation.

Recommendation 3

Target site reviews to key IRP elements, such as loan purpose, eligibility, credit elsewhere, and revolved fund loans.

Agency Response

In its April 29, 2010, response, RBS stated:

"The Agency agrees that site visit reviews should be better targeted and, to that end, is revising the field visit report. This action is to be completed by October 30, 2010."

OIG Position

We accept RBS' management decision for this recommendation.

Recommendation 4

Establish a timetable to remove the definition of revolved funds as "not Federal funds" from IRP regulation.

Agency Response

In its April 29, 2010, response, RBS stated:

"The Agency will work in consultation with Office of the General Counsel to determine the appropriate action to be taken as it relates to the policy on "Federal Funds." Once a decision is reached the IRP regulations will be revised accordingly. This action is to be completed by October 30, 2010."

OIG Position

Although we agree with the proposed corrective action, we cannot accept RBS' management decision for this recommendation. To reach management decision, please provide documentation of OGC's determination. If it is determined that the definition for revolved funds in the regulations should continue to state they are not "Federal Funds," provide a plan and implementation date for corrective action to clarify the applicability of IRP regulatory requirements to loans made from revolved funds.

Recommendation 5

Provide guidance to intermediaries and RBS State office staff on how to verify actual jobs-created or saved through IRP loans.

Agency Response

In its April 29, 2010, response, RBS stated:

"The Agency agrees that agency personnel should be well informed regarding the verification of jobs created and saved. As a result, such guidance was provided during fiscal year 2008. This guidance will be reiterated, and made a part of the regulatory instructions for the IRP program. In addition, the electronic reporting screens include an updated job verification field designed to bring attention to the appropriate time for job verification. This action is to be completed by October 30, 2010."

OIG Position

We accept RBS' management decision for this recommendation.

Recommendation 6

Develop guidance that instructs RBS State office staff conducting annual site visits when circumstances warrant visiting borrowers, how many borrowers to visit, and what information needs to be verified.

Agency Response

In its April 29, 2010, response, RBS stated:

"The Agency agrees that improved and updated guidance will be helpful regarding site visits. As a result, we are in the process of changing the field visit form, and will provide further guidance both in the updated regulation and the regulatory instructions."

OIG Position

We cannot accept management decision for this recommendation. To reach management decision, provide the changes planned to the field visit form. RBS also needs to provide a proposed completion date for implementation of corrective action.

Section 2: Relending Revolved Funds

Finding 2: RBS Should Establish Guidance for Promptly Relending Revolved Funds

We determined that two of seven intermediaries we reviewed did not promptly relend their revolved funds, totaling over $1.7 million, which had accumulated in their accounts. One intermediary, for example, did not make any loans for over 5 years despite having $500,000 in revolved funds because it did not actively seek loan applicants for the available funds. This occurred because IRP regulations do not require intermediaries to actively market and timely recirculate their revolved funds. As a result, RBS is vulnerable to having IRP money remain idle in accounts by intermediaries who choose to earn interest from revolved funds, rather than put the money back to work creating jobs in rural areas.

IRP regulations provide for program funds to recycle through rural communities so they can continue to create jobs. The initial money from RBS to intermediaries essentially works to seed their ability to make loans on an ongoing basis. As borrowers repay, intermediaries are to take the revolved funds and make new loans whose proceeds will eventually enable the intermediaries to make even more loans. One initial IRP loan, then, can create more jobs each time the funds flow back into the community. However, IRP regulations allow for intermediary lending practices that work against this process by not requiring intermediaries to actively market and timely recirculate their revolved funds.

Generally, it is financially advantageous for intermediaries to relend revolved funds because they earn more interest from loans than deposits. However, the regulations are silent about whether or not intermediaries are required to make loans with their revolved funds unless the intermediary asks for more money from RBS. Then, the intermediary must show that it has been "promptly" lending out any accumulated revolved funds. "Promptly" does not have a defined timeframe (e.g., 1 year). Thus, intermediaries with accumulated revolved funds may either (1) leave their revolved funds in an account to earn interest without making any effort to relend the money, or (2) acquire even more initial IRP loan funds though they have not promptly loaned their revolved funds. In either case, IRP funds are not being used to create jobs. During our review, we found an example of each situation.

<u>Revolved Funds Idle</u>

An intermediary made no loans with its revolved funds between June 2001 and February 2007. By December 2006, the intermediary had accumulated $514,000 from borrowers repaying loans the intermediary had made with IRP funds acquired in 1994. The lack of revolved fund loan making was noted by an RBS State office program specialist in April 2006 who encouraged the intermediary to loan out the money. In one letter, the specialist reminded the intermediary that IRP's intent was to recirculate money rather than to keep it "sitting in the bank gaining interest."

Between January 2004 and September 2006, RBS continued to encourage the intermediary to make loans and offered suggestions for obtaining new borrowers, but the intermediary did not comply. The RBS specialist told us that the intermediary's director "expects the public to come to him if they want a loan, so he doesn't prospect for business." Despite being frustrated with the situation, the specialist acknowledged what RBS officials later confirmed—the agency has no regulatory authority to compel intermediaries to make loans with revolved funds. These officials stated that this is an issue that will be addressed in any future updating of the IRP regulation.

Revolved Funds Not Lent Promptly

Between 1992 and 2000, an intermediary received four IRP loans totaling $2.8 million. By February 2002, the intermediary had accumulated $1.6 million in revolved funds from borrowers repaying their loans. Despite having a significant amount of revolved money available for relending, the intermediary requested and received an additional $500,000 loan from RBS in January 2003.[17]

Regulations require that for an intermediary to qualify for subsequent IRP loans, it must demonstrate that it has been promptly relending any revolved funds.[18] We maintain that the money accumulated in the intermediary's revolved fund account shows that it was not relending promptly. As noted above, however, the regulations do not define a timeframe for promptness. This leaves RBS vulnerable not only to intermediaries not quickly relending revolved funds, but also to sluggish lenders requesting even more money. In addition, the guidance does not address how much revolved money the intermediary must have lent out to qualify for an additional loan.[19] It is possible, for example, that an intermediary may quickly make a series of small loans to qualify for additional IRP funds, but still have a significant amount of money in its accounts that is not circulating through the community and creating jobs because neither a timeframe for promptness nor an amount of revolved funds that must be relent are defined.

In general, RBS officials agreed that the agency's lack of regulatory authority to require intermediaries to relend from revolved funds needs to be addressed when IRP regulations are updated. We recommend that RBS establish a timeframe for doing so to mitigate this program vulnerability. We also recommend that the agency develop guidance that quantifies both the timeframe for prompt relending and the amount that must be relent for intermediaries to qualify for subsequent IRP loans.

Recommendation 7

Establish a timeframe for updating IRP regulations to require that intermediaries relend accumulated revolved funds within a specified period of time or repay any associated outstanding loan principal and accrued interest to RBS.

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[17] We estimate that approximately $1.2 million of the $1.6 million in revolved funds was available for relending. IRP regulations allow intermediaries to use revolved funds to pay certain costs associated with making and servicing loans, such as administrative costs and a bad-debt reserve. We subtracted these estimated costs (approximately $400,000) from the intermediary's total revolved fund balance to arrive at $1.2 million available for relending. The intermediary loaned the additional $500,000 it borrowed between February 2003 and December 2004. During this time, the intermediary made only one loan ($150,000) from the revolved funds it had accumulated.
[18] 7 CFR, §4274.331(a)(3)(ii), "Loan Limits" (January 2007).
[19] 7 CFR, §4274.331(a)(3)(i), "Loan Limits" (January 2007) stipulates that 80 percent of each of an intermediary's initial loan funds must have been lent out prior to being considered for an additional loan. However, there is no corresponding language regarding revolved funds.

Agency Response

In its April 29, 2010, response, RBS stated:

"The Agency agrees that a timeframe should be established for updating IRP regulations and requiring a time period for use or return of funding. This action is to be completed by October 30, 2010."

OIG Position

We accept RBS' management decision for this recommendation.

Recommendation 8

Institute guidance defining what constitutes "prompt" lending for the purposes of receiving additional loans, and how much must be lent.

Agency Response

In its April 29, 2010, response, RBS stated:

"The Agency agrees that guidance should be developed regarding what constitutes "prompt" lending, and expects to include this in the updated regulation. This action is to be completed by October 30, 2010."

OIG Position

We cannot fully accept RBS' management decision for this recommendation. We agree with the planned corrective action for defining what constitutes prompt lending; however, to reach management decision, provide a plan for quantifying the amount that must be relent for intermediaries to qualify for subsequent IRP loans and a proposed completion date for this corrective action.

Scope and Methodology

To evaluate RBS' controls over IRP, we obtained an understanding of program operations at the national and State level and reviewed IRP regulations, RBS instructions, administrative and procedure notices, and pertinent letters. We also reviewed the Office of Inspector General's prior audit report on IRP, "Rural Business-Cooperative Service, Intermediary Relending Program," issued in March 1997 (34601-1-Te), and Rural Development's "Management Control Review" report for FY 2005. We conducted audit fieldwork at Rural Development's national office in Washington, D.C., and State offices in Minnesota, South Dakota, and North Carolina. We conducted site visits at selected intermediaries and ultimate recipients (see exhibit B). We performed our fieldwork from January 2007 to October 2009.

At Rural Development's national office, we interviewed RBS employees with IRP responsibilities. We obtained and reviewed policies and procedures describing internal controls over and administration of the program. We obtained an understanding of the program's process from applying for loans to scoring applications to servicing loans.

Our overall scope included RBS' IRP active loan portfolio through March 2008, which included 890 loans to intermediaries totaling $462 million in unpaid principal. To gain a perspective on the most active States utilizing IRP, the RBS national office provided us a spreadsheet of all IRP loans awarded since inception of the program. We judgmentally selected RBS' implementation of IRP in North Carolina, South Dakota, and Minnesota for review based on total dollars obligated for IRP loans.[20] Since the program's inception, Minnesota was awarded $37.9 million, North Carolina was awarded $44.3 million, and South Dakota was awarded $39.4 million. We also reviewed Rural Development's "Business Program Assessment Reviews" for these States.

At the three State offices, we reviewed IRP lending reports submitted by intermediaries, interviewed RBS officials, and reviewed the offices' intermediary loan files.

At each office, we selected two intermediaries (six total) for onsite reviews based on the number and value of loans received from RBS and made to borrowers, and the intermediaries' location.[21, 22] We also interviewed the official who administered IRP and reviewed borrowers' loan files.

We selected a total of 41 borrowers to visit based on loan purpose and amount.[23] There, we interviewed principals, reviewed documents supporting their use of IRP loan funds (e.g., invoices, financial statements, etc.), and verified the assets acquired with the loans. We also compared jobs-created numbers reported by borrowers with those held in RBS' database (GLS).

[20] These represent the three largest States in terms of total dollars obligated.
[21] The three States combined had a total of 72 intermediaries: 23 in North Carolina, 31 in Minnesota, and 18 in South Dakota. The intermediaries selected do not necessarily represent those with the highest number of loans or highest dollar value, but a combination of factors that include the number and amount of loans from RBS, location, number of loans made to borrowers, and length of time in the program.
[22] Additionally, while reviewing loan files in Minnesota we found indications that one intermediary was not actively lending IRP finds and we performed a file review of this intermediary at the State office.
[23] We visited 20 borrowers in Minnesota, 16 borrowers in South Dakota, and 5 borrowers in North Carolina. We selected some borrowers based on potentially questionable purposes (e.g., golf courses).

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Exhibit A: Summary of Monetary Results

Finding No.	Description	Amounts	Category
1	Ineligible Loan Purposes (exhibit C)	$924,431	Questioned Costs/Loans, Recovery Recommended
1	Loans Exceeding Loan Limit (exhibit D)	$6,560,107	Questioned Costs/Loans, Recovery Recommended
1	Loans Made in Non-Rural Areas (exhibit E)	$425,000	Questioned Costs/Loans, Recovery Recommended
TOTAL		**$7,909,538**[a]	

[a] Total represents unduplicated loan amounts.

Exhibit A presents the Summary of Monetary Results. The first column provides the finding number; the second a description; the third the amount; and the fourth the category of questioned costs.

Exhibit B: Audit Sites Visited

Site	Intermediary	No. of IRP Loans	Amount of IRP Loan(s)	No. of Ultimate Recipient Loans Made	No. of Ultimate Recipients Visited	Ultimate Recipient	Amount of Ultimate Recipient Loans(s)
RBS National Office Washington, D.C.							
Minnesota RBS State Office St. Paul, MN							
A	X	1	$750,000	5	5		
A-1						X	$25,000
A-2						X	$130,000
A-3						X	$135,431
A-4						X	$150,000
A-5						X	$115,000
B	X	5	$3,300,000	80	15		
B-1						X	$85,000
B-2						X	$350,000
B-3						X	$250,000
B-4						X	$100,000
B-5						X	$100,000
B-6						X	$100,000
B-7						X	$100,000
B-8						X	$200,000
B-9						X	$150,000
B-10						X	$50,000
B-11						X	$63,000
B-12						X	$50,000
B-13						X	$150,000
B-14						X	$100,000
B-15						X	$75,000

Exhibit B: Audit Sites Visited (continued)

Site	Intermediary	No. of IRP Loans	Amount of IRP Loan(s)	No. of Ultimate Recipient Loans Made	No. of Ultimate Recipients Visited	Ultimate Recipient	Amount of Ultimate Recipient Loans(s)
South Dakota RBS State Office Huron, SD							
C	X	9	$6,750,000	100	8		
C-1						X	$150,000
C-2						X	$150,000
C-3						X	$34,000
C-4						X	$365,000
C-5						X	$250,000
C-6						X	$187,000
C-7						X	$144,906
C-8						X	$250,000
D	X	2	$1,000,000	10	8		
D-1						X	$51,070
D-2						X	$153,000
D-3						X	$45,850
D-4						X	$24,423
D-5						X	$41,200
D-6						X	$53,700
D-7						X	$153,500
D-8						X	$232,172
North Carolina RBS State Office Raleigh, NC							
E	X	5	$4,621,419	156	3		

Exhibit B: Audit Sites Visited (continued)

Site	Intermediary	No. of IRP Loans	Amount of IRP Loan(s)	No. of Ultimate Recipient Loans Made	No. of Ultimate Recipients Visited	Ultimate Recipient	Amount of Ultimate Recipient Loans(s)
E-1						X	$150,000
E-2						X	$95,000
E-3						X	$395,000
F	X	9	$5,967,980	84	2		
F-1						X	$2,150,000
F-2						X	$2,052,000
TOTAL			**$22,389,399**				**$9,606,252**

Exhibit B shows the audit sites visited. The first column lists the location; the second column indicates whether the site visited was an intermediary; the third is the number of IRP loans awarded to the intermediary; the fourth is the total amount of loans made to the intermediary; the fifth is the number of ultimate recipient loans made by the intermediary; the sixth is the number of ultimate recipients we visited, the seventh indicates whether the site visited was an ultimate recipient, and the eighth is the amount of the ultimate recipient loan.

Exhibit C: Ineligible Loan Purposes

Intermediary	Ultimate Recipient	Loan Amount	Stated Purpose	Ineligible Purpose	Questioned Amount	Revolved Funds
A	A-1	$25,000	Purchase assets of a beauty shop	Loan purpose was misrepresented to RBS; loan used to pay off loan from affiliated bank	$25,000	No
A	A-2	130,000	Purchase modular building to lease out as office space	Loan purpose was misrepresented to RBS; loan was used to relieve charter school of lease of space no longer needed	130,000	No
A	A-3	135,431	Purchase equipment and inventory	Loan purpose was misrepresented to RBS; loan was used to reimburse an affiliated intermediary	135,431	No
A	A-4	150,000	Refinance loan from Intermediary I	Loan purpose was misrepresented to RBS; loan was used to pay off a loan from an affiliated intermediary	150,000	No
C	C-4	250,000	Operating capital and upgrade irrigation system	Loans to golf courses are prohibited	250,000	Yes
C	C-3	34,000	Remodel clubhouse and upgrade for handicap accessibility	Loans to golf courses are prohibited	34,000	Yes
E	E-1	150,000	Purchase of land for conservation	Land conservation does not contribute to the goals of the IRP	150,000	No
E	E-4	50,000	Option to purchase land for conservation purposes	Land conservation does not contribute to the goals of the IRP	50,000	Yes
Total Loans – Ineligible Purposes					**$924,431**	

Exhibit C shows the loans that were for ineligible purposes. The first column is the intermediary name; the second is the ultimate recipient name; the third is the loan amount; the fourth is the stated purpose of the loan; the fifth is the ineligible purpose; the sixth is the amount OIG questioned; and the seventh identifies whether the loan is from revolved funds.

Exhibit D: Loans Exceeding Loan Limit

Intermediary	Ultimate Recipient	Amount of Loan(s)	Purpose	Questioned Amount	Revolved Funds
B	B-2	$350,000[a]	New equipment purchases for manufacturing process	$250,000[a]	Yes
C	C-4	365,000[b]	Construction of new office building and additional office space for future expansion	215,000[b]	Yes
C	C-9	300,000	Land improvements and purchase of equipment	300,000	Yes
C	C-10	300,000[c]	Lease of building in industrial park	150,000[c]	No
E	E-3	395,000	Equipment purchase and working capital	395,000	No-245,000 Yes-150,000
E	E-5	290,407	Purchase of transitional housing for patients	290,407	Yes
E	E-6	298,000	Real property improvements, medical and office equipment and working capital	298,000	No-208,600 Yes-89,400
F	F-1	500,000	Working capital for construction company; construct 4 duplexes in subdivision	500,000	No-150,000 Yes-350,000
F	F-1	375,000	Working capital for construction company; construct four duplexes in subdivision	375,000	No - 50,480 Yes - 324,520
F	F-1	525,000	Working capital for construction company; construct six duplexes in subdivision	525,000	Yes
F	F-1	187,500	Working capital for construction of one quadraplex Townhouse in subdivision	187,500	No

[a] Ultimate recipient B2 received two loans totaling $350,000. We questioned one loan for $250,000.
[b] Ultimate recipient C4 received three loans totaling $365,000. We questioned two loans totaling $215,000.
[c] Ultimate recipient C10 received two loans totaling $300,000. We questioned one loan for $150,000.

Exhibit D: Loans Exceeding Loan Limit (continued)

Intermediary	Ultimate Recipient	Amount of Loan(s)	Purpose	Questioned Amount	Revolved Funds
F	F-1	62,500	Working capital for construction of one quadraplex Townhouse in subdivision	62,500	Yes
F	F-1	187,500	Working capital for construction of two eight-unit apartments in subdivision	187,500	No
F	F-1	62,500	Working capital for construction of two eight-unit apartments in subdivision	62,500	Yes
F	F-1	$150,000	Working capital for construction of two eight-unit apartments in subdivision	$150,000	No
F	F-1	100,000	Working capital for construction of two eight-unit apartments in subdivision	100,000	Yes
F	F-2	852,000	Loan consolidation of previous loans	852,000	Yes
F		573,000	Refinance previous loan	573,000	Yes
F	F-3	150,000	Refinance lots in subdivision	150,000	No
F		255,000	Refinance lots in subdivision	255,000	Yes
F	F-4	331,700	Real estate and improvements	331,700	Yes
F	F-5	350,000	Up fit of new building and equipment	350,000	Yes
Total Loans Exceeding Loan Limits				**$6,560,107**	

Exhibit D identifies the loans exceeding the loan limits. The first column is the intermediary name; the second is the ultimate recipient name; the third is the amount of the loans; the fourth is the purpose of the loans; the fifth is the amount OIG questioned; and the sixth identifies whether the loan is from revolved funds.

Exhibit E: Loans Made in Non-Rural Areas

Intermediary	Ultimate Recipient	Amount of Loan(s)	City, State	Population[24]	Questioned Amount	Revolved Funds
B	B-4	$100,000	Duluth, MN	86,918	$100,000	No
E	E-7	275,000	Goldsboro, NC	39,043	275,000	Yes
E	E-4	50,000	Asheville, NC	68,889	50,000[a]	Yes
E	E-8	50,000	Asheville, NC	68,889	50,000	Yes
Total Loans made in Non-rural Areas					**$475,000**	

[a] This loan was questioned for an ineligible purpose per exhibit A.

Exhibit E identifies the loans that were made in non-rural areas. The first column is the intermediary name; the second is the ultimate recipient name; the third is the amount of the loans; the fourth is the location of the loans (city and State); the fifth is the population; the sixth is the amount OIG questioned; and the seventh identifies whether the loan is from revolved funds.

[24] Population obtained from the U.S. Census Bureau's 2000 U.S. Census

USDA'S

RURAL BUSINESS-COOPERATIVE SERVICE

RESPONSE TO AUDIT REPORT

United States Department of Agriculture
Rural Development

SUBJECT: OIG Audit: Business Programs and Cooperative Service Intermediary Relending Program (Audit Number 34601-006-AT)

TO: Gil H. Harden
Assistant Inspector General
for Audit
Office of Inspector General

Attached for your review is Business Program's response to the official draft for the subject audit dated April 29, 2010.

This response is being submitted for inclusion in the final report and your consideration to reach management decision on the recommendations.

If you have any questions, please contact Arlene Pitter of my staff at (202) 692-0083.

/S/

JOHN M. PURCELL 4/30/2010
Director
Financial Management Division

Attachment

TO: Gil Harden
Acting Assistant Inspector General
for Audit

FROM: Judith A. Canales /S/ 4/29/2010
Administrator
Business and Cooperative Programs

SUBJECT: Intermediary Relending Program
Agency Response to Draft Report No. 34601-6-At

The Rural Business-Cooperative Service (RBS) submits the following comments regarding the above captioned document for the RBS's Intermediary Relending Program (IRP) audit.

Page one, Executive Summary, first paragraph:
Please change the paragraph to read as follows:

"The Rural Business-Cooperative Service (RBS) administers the Intermediary Relending Program (IRP), which provides 30-year loans at 1 percent interest to non-profit organizations with experience in lending (intermediaries) that, in turn, lend the money at higher (but reasonable) rates to ultimate recipients (borrowers) for rural small businesses. As borrowers repay, intermediaries use the money to repay RBS and to continue lending from the revolving fund. The main goal of the IRP is to alleviate poverty by increasing rural employment. To accomplish this, RBS has provided approximately 1,032 loans totaling over $750 million as of September 2009. Our audit examined the Agency's controls over IRP to determine if they adequately ensure that program funds are expended appropriately."

Page one, last paragraph:
Please change the paragraph to read as follows:

"RBS has identified IRP report as critical for tracking information regarding the program. In 2000, the RBS National Office issued guidance to its State offices stating that these reports should be reviewed to ensure that loans made were eligible. However, RBS did not include eligibility elements in the report forms and the notice expired. RBS did, during that time, work to improve its reporting forms. Similarly, a 2001 RBS notice stated that annual site visits to intermediaries were "essential to ensure that funds are being used for intended purposes" but the notice did not instruct officials to look at loan purposes when reviewing loan files. The checklist that guides annual site visits is also silent about determining if basic program requirements are met. As a result, RBS did not detect that three intermediaries made eight loans totaling $924,000 for ineligible purposes, and two intermediaries made four loans totaling $475,000 to non-rural borrowers. While this is not a reflection of the entire program, it is of concern. RBS points out that the eight loans equate to less than 8/1000 of loans made, and a dollar representation of less than 2/1000 of the dollars loaned and does not agree that this finding is substantiated.

Page Three, Third paragraph, last sentence should be changed to read:

"However, the rules governing the revolved funds that intermediaries receive from borrowers are somewhat different from those for the initial loan funds that intermediaries receive from RBS. This is because the regulation defines revolved funds as "non Federal". Intermediaries tend to interpret this as meaning that the funds are no longer regulated. In fact, the funds do remain regulated which causes confusion in program delivery.

Page five, paragraph three:
Please delete. This is a duplication of information.

Page five, paragraph four:
Please change to read:

"Together, the site visits and the lending reports should allow RBS to monitor intermediaries' program compliance by combining an ongoing overview of lending practices with annual onsite corroboration, but they do not target central IRP requirements. The lending report, for example, does not include some elements related to loan purposes or borrower eligibility. RBS is currently revising the loan reports and the Field Visit Review reports to include these elements and provide more accurate and on point reporting and evaluation." (The rest of the paragraph should be deleted because the information has already been stated earlier in the document.)

Page seven, the last part of the first paragraph contains a quote that RBS believes should be paraphrased rather than represented as incomplete. Please change the last part of the paragraph to read:

"Agency officials indicated during discussions that agencies throughout the government must be able to trust in the veracity of information provided by applicants and program participants to the extent that information is appropriately documented and oversight is required. While we agree that IRP participants are primarily responsible for submitting accurate information, RBS remains accountable."

Page seven, second paragraph, last line:
Please change to read:

"However, RBS does not currently have adequate controls to accurately capture job creation and retention data. As a result, portfolio, job, and other data are expected to be included in the electronic reports currently under development."

Page seven, paragraph three:
Please change to read:

"The Agency requires a 'credit elsewhere' test that requires borrowers to certify that they could not get credit elsewhere at reasonable rates. In our interviews with 15 borrowers, 9 stated that they either could have obtained loans from other sources or did not attempt to do so. While this does not constitute proof that the borrowers could have obtained credit elsewhere, it does suggest that RBS needs to institute a system capable of giving it more assurance that program funds are going to those for which they were intended and are being used to meet program objectives."

Page seven, paragraph four:
Please remove this paragraph. It is not correct. Guidance has been issued regarding job counts and verification.

Page eight, first paragraph:
Please add to the end after … verify jobs created through IRP loans.

"The electronic reporting system is expected to include a job verification section that will help ensure that jobs are verified no sooner than 1 year after a loan is made."

Recommendation One:

Response:
The Agency will work in consultation with Office of the General Counsel to determine the appropriate action to be taken on loans made for ineligible purposes, amounts, and in non-rural areas. This action is to be completed by October 30, 2010.

Recommendation Two:

Response:
The Agency agrees that incorporation of key elements into the lending reports should take place and is currently pursuing changes to the reporting requirements. This action is to be completed by October 30, 2010.

Recommendation Three:

The Agency agrees that site visit reviews should be better targeted and, to that end, is revising the field visit report. This action is to be completed by October 30, 2010.

Recommendation Four:

The Agency will work in consultation with Office of the General Counsel to determine the appropriate action to be taken as it relates to the policy on "Federal Funds." Once a decision is reached the IRP regulations will be revised accordingly. This action is to be completed by October 30, 2010.

Recommendation Five:

The Agency agrees that agency personnel should be well informed regarding the verification of jobs created and saved. As a result, such guidance was provided during fiscal year 2008. This guidance will be reiterated, and made a part of the regulatory instructions for the IRP program. In addition, the electronic reporting screens include an updated job verification field designed to bring attention to the appropriate time for job verification. This action is to be completed by October 30, 2010.

Recommendation Six:

The Agency agrees that improved and updated guidance will be helpful regarding site visits. As a result, we are in the process of changing the field visit form, and will provide further guidance both in the updated regulation and the regulatory instructions.

Page 10, third paragraph:

Please remove the sentence stating that IRP funds are not being used to create jobs. This is patently untrue. It may be accurate to say that some funds are sitting idle. However, as written, the statement is not correct.

Recommendation Seven:

The Agency agrees that a timeframe should be established for updating IRP regulations and requiring a time period for use or return of funding. This action is to be completed by October 30, 2010.

Recommendation Eight:

The agency agrees that guidance should be developed regarding what constitutes "prompt" lending, and expects to include this in the updated regulation. This action is to be completed by October 30, 2010.

Page 13, paragraph two:
There is a typographical error in the first sentence.
Please capitalize the word National in the first line of the paragraph.

Page 14, no comments.

Pages 15-21 are tables. RBS has no comments regarding the RBS 2001 notice, which did not instruct officials to look at loan purposes when reviewing loan files. The checklist that guides annual site visits is also silent about determining if basic program requirements are met. As a result, RBS did not detect that three intermediaries made eight loans totaling $924,000 for ineligible purposes, and two intermediaries made four loans totaling $475,000 to non-rural borrowers. While this is not a reflection of the entire program, it is of concern. RBS points out that the eight loans equate to less than 8/1000 of loans made, and a dollar representation of less than 2/1000 of the dollars loaned. This is not a representation sample.