Good morning. Below are Stearns Bank's comments on the Federal Register changes for the USDA program.

- We believe that a consolidated guarantee program for all USDA programs is a good idea as this will elevate questions between programs by creating a single set of common forms for lenders to use across the four programs.
- As proposed (page 52632), all lenders would be required to submit to the Agency a copy of their current written policies and procedures for originating & servicing guaranteed loans. Under this rule, the lender is responsible for originating the loan in accordance with their current written policies and procedures and would need to comply with whichever is more stringent. I read this to say that, if we would not approve a deal at 80% LTV conventionally, then we could not use the USDA program to add value to the property & relax our credit policy. The SBA currently requires that the bank note that they would not do the deal without the government enhancement and the USDA program should match.
- The USDA is stating that there are 3 criteria that are needed to get a deal approved. They note that any project that fails to meet any one of the criteria would be automatically ineligible. I think this is going to make deals harder to get approved and make the program less feasible. The 3 changes are (page 52628):
    1. Demonstrate DSCR of 1.0x or higher.
    2. Cash equity of 10% for existing / 20% for startup. No longer TNW, but instead Cash Equity, which would remove any receivables, inventory, etc from the equation and make that requirement more difficult to fulfill.
    3. Have LTV of no more than 1.0.
    4. However if a lender has stricter eligibility requirements, a project would be required to meet the lender's requirements.
- Creating a preferred lender program that would include a "Low Doc" aspect is a good step. The low doc method would still require all of the information, however instead of sending everything to USDA for approval the bank would provide a certification of the receipt & acceptance of the reports (page 52631). This applies only to deals under $5MM. I think this is a good concept, however it should be further modified to reflect the standards of the SBA Low Doc program. The Low Doc program does not provide much relief from the reports that are required. USDA should place some credibility on Bank's approval of the project and not require additional reports if bank finds to be unnecessary (feasibility study, environmental issues, etc).
- (Page 52636-Biggest issue). *The entire loan would be required to be secured by the same security, with equal lien priority being given for the guaranteed and unguaranteed portions of the loan. <u>The guaranteed portion would be paid first and given preference any priority of the unguaranteed portion.</u> The lender would remain mortgagee or secured party of recorded notwithstanding the fact that another party may hold a portion of the loan. The holder of the guaranteed portion would have all rights of payment, as defined in the Loan Note Guarantee to the extend of the portion purchased. The lender would remain bound by all obligations under the Loan Note Guarantee, Lender's Agreement, and Agency program regulations.* The way this reads it sounds like the last out scenario where the USDA guaranty would be paid first. This would kill the program if that is the intention.
- (Page 52638). *The proposed rule prohibits late payment charges from being covered by the Loan Note Guarantee. Further, the lender would be prohibited from adding such charges to the principal and interested due under any guaranteed note.* I fear that a borrower would read this and think that they are not required to pay any late fees. This is public information and if ready literally could be construed to say that USDA loans cannot have that fee. This should be reworded & revised.

- They did add one requirement to the application process that is currently utilized by HUD as per attendees of the conference. I have heard that this is another timely/difficult report that is being required (Page 52631 - #11)
- The classifications of the B&I program are being limited on the basis of the refinancing & commercial lease facilities. Whereby refinancing would be limited to 50% of the loan funds (or less). Refinancing is a large part of the program and as long as the refinancing helps the cash flow of the company and keeps the company profitable it should be eligible. The intention of the program is to help businesses prosper and create jobs.
- The USDA guarantee requires "Audited" financial statements for loans higher than $1MM. This should be adjusted to require tax returns or compiled statements at most. It is not reasonable to require a business (such as a hotel) to get audited statements. I can understand audited statements on complex operations for deals over $10MM, however the $1MM threshold is too low.
- It looks as though the status for becoming a Preferred lender & keeping the status is solely based on losses. I believe that it should also take into account the amount deals completed.

Thank you for your attention to these concerns. We look forward to the revisions and hopefully a stronger & more user friendly program in the future.

Regards,
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