



Committed to the future of rural communities.

RURAL BUSINESS-COOPERATIVE PROGRAMS

BUSINESS AND INDUSTRY (B&I) LOAN GUARANTEE PROGRAM

The Business and Industry Loan Guarantee program guarantees loans made by eligible local lenders to businesses to benefit rural areas. The program's primary purpose is to create and maintain employment and improve the economic and environmental climate in rural communities. This is achieved by expanding the existing private credit structure capability to make and service quality loans to provide lasting community benefits. USDA Rural Development typically guarantees losses of up to 80 percent of the original loan amount. Inability to obtain other credit is not a requirement.

Benefits To Businesses

- Higher loan amounts, strengthens the loan application, less equity injection, lower interest rates and longer repayment terms assist businesses that may not qualify for conventional lender financing.
- Assists a business in providing stability, growth, expansion and rural employment.

Benefits To Lenders

- Provides lenders with another tool to expand their loan portfolio while reducing risk exposure.
- Improves the economy and quality of life in rural communities.
- Reduces concerns regarding collateral/appraisal issues often found in smaller communities.
- Allows lenders to make loans above their legal lending limits.
- Increase profitability by selling guaranteed portion on the secondary market.

Eligible Areas

Business and industrial loans can be guaranteed in rural cities up to 50,000 population. Priority is given to applications for loans in rural communities of 25,000 or less.

Eligible Borrowers

- Any legal entity, including individuals, public and private organizations and federally recognized Indian tribal groups, may qualify.
- There is no size restriction on the businesses.
- Local economic development organizations and investors can be considered.

Eligible Loan Purposes

- Business and industrial acquisitions, construction, conversion, expansion, repair, modernization or development costs.
- Purchase of equipment, machinery or supplies.
- Startup costs and working capital.
- Processing and marketing facilities.
- Pollution control and abatement.
- Refinancing for viable projects, under certain conditions.
- Purchase of startup cooperative stock for family sized farms where commodities are produced to be processed by the cooperative.

Maximum Loan Amount

Loan guarantees are limited to a maximum of \$10 million per borrower, although the Rural Business-Cooperative Programs Administrator can grant up to \$25 million.

- Maximum of \$400,000 for purchase of startup cooperative stock.

Loan Guarantee Limits (Maximum Percentage Applies To The Entire Loan)

- 80% up to \$5 million.
- 70% over \$5 million to \$10 million.
- 60% over \$10 million to \$25 million.

Collateral - Appraisals

- All collateral must secure the entire loan.
- Repayment must be reasonably assured.
- Personal and corporate guarantees are required.
- A qualified appraisal report is required on property that will serve as collateral.

Loan To Appraised Market Value Ratios

Lenders will discount collateral consistent with sound loan to value policies and standards.

Maximum Repayment Terms

- Working Capital - 7 years.
- Machinery and Equipment - 15 years (or useful life).
- Real Estate - 30 years.

Ineligible Loan Purposes

- Line of Credit.
- Agricultural production which is not part of an integrated business involved in the processing of agricultural products.

- Any project likely to result in the transfer of employment from one area to another.
- Any project involving transfer of ownership, unless this will keep the business from closing, prevent the loss of jobs in an area or provide more jobs.
- Paying off a creditor in excess of the value of the collateral.
- Payment to owners, partners, shareholders or others who retain any ownership in the business.
- Corporations and businesses not at least 51% owned and controlled by U.S. citizens.
- Charitable and educational institutions, religious organizations and affiliated entities and fraternal organizations.

Fees and Costs

A one-time guarantee fee of 2 percent of the guaranteed principal amount is paid by the lender and may be passed on to the borrower. Subject to annual renewal fee on the unpaid principal balance; guaranteed portion of the loan only. Other typical lender costs may also be incurred.

Borrower Equity Requirements

A minimum of 10 percent tangible balance sheet equity is required at the time of issuing the loan note guarantee for existing businesses. Twenty percent (20%) tangible balance sheet equity is required for new businesses. Equity is developed in accordance with general accepted accounting principles. **Feasibility studies may be required.**

Interest Rate

- Interest rates for loans may be fixed or variable.
- The rate is negotiated between the lender and borrower and is similar to those rates customarily charged to other borrowers in similar circumstances.
- A variable rate must be tied to a nationally published rate.
- Variable rates cannot be adjusted more than quarterly.

Credit Quality

Lender addresses the business adequacy of equity, cash flow, collateral, history, management and the current status of applicable industry in a written credit analysis.

Servicing/Liquidation

Financial statements developed in accordance with generally accepted accounting principles are required. Lenders will service and, if necessary, liquidate the loans (with USDA Rural Development's concurrence).

For More Information

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