

RD AN No. 4343 (4279-B)
March 19, 2008

TO: State Directors, Rural Development

SUBJECT: Business and Industry Guaranteed Loan Program
Feasibility Studies and Project Feasibility

ATTN: Business and Cooperative Programs Directors and
Business and Community Programs Directors

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance and clarification regarding the importance of a properly completed feasibility study. Guidance is also provided on when a feasibility study should be required as provided under RD Instruction 4279-B, section 4279.150.

COMPARISON WITH PREVIOUS AN:

This Administrative Notice (AN) updates and replaces RD AN No. 4215 (4279-B), "Feasibility Studies and Project Feasibility," dated September 20, 2006.

IMPLEMENTATION RESPONSIBILITIES:

Although RD Instruction 4279-B, section 4279.150, states that an independent feasibility study may be required, it is strongly suggested that a comprehensive feasibility study be obtained on all startups, on existing businesses entering a new market area, for business acquisitions, and on existing businesses where the loan will result in a significant expansion of the business.

EXPIRATION DATE:
March 31, 2009

FILING INSTRUCTIONS:
Preceding RD Instruction 4279-B

You should ensure that the lender completes a thorough analysis and evaluation of submitted feasibility studies to determine if the study meets Agency needs and to determine the potential success of the business. The Agency should also review the feasibility study to ensure that it meets its needs. RD Instruction 4279-B, Appendix A, contains the minimum components the Agency believes are necessary for an acceptable feasibility study. The feasibility study should reach a conclusion as to the overall potential success of the business.

A business plan and a feasibility study are very different. A business plan, which may be prepared by the business itself, is a plan of all aspects of a business' operation and should be obtained with every application. A feasibility study, which must be prepared by a qualified, independent consultant, is an evaluation of the chances of success in terms of economic, market, technical, financial, and management feasibility.

In cases where the site has been chosen, the feasibility study should assess the feasibility of the specific site as part of the overall feasibility of the project. In certain cases, a specific site has not been chosen at the time the feasibility study is completed. In these cases, the study should identify specific attributes of a site that are necessary for the project to be successful (i.e., infrastructure, location, size). In these limited cases, in order to present a meaningful feasibility study, the business plan submitted with the application must contain adequate information on the specific site selected for the project. The applicant, the lender, and the Agency are responsible for reviewing the site to determine that it meets the attributes outlined in the feasibility study. The Agency review does not relieve the lender of its responsibilities under the terms of the regulations, Form RD 4279-4, "Lender's Agreement Business and Industry Guaranteed Loan Program," Form RD 4279-5, "Loan Note Guarantee," and Form RD 4279-6, "Assignment Guarantee Agreement." In limited, complex cases when the Agency cannot determine if the selected site meets specific attributes identified in the feasibility study, a third-party may be required to evaluate the site to determine if it meets the requirements identified in the independent feasibility study.

Projects that are proposed to be completed in multiple phases must generate cashflow to meet the repayment obligations of each phase being financed and have adequate collateral coverage. If the phases are dependent upon one another for success, the project should be considered as one and the loan amounts combined to determine the maximum percentage of guarantee in accordance with RD Instruction 4279-B, section 4279.119(b).

If you have any questions, please contact the Business and Industry Loan Processing Branch at (202) 690-4103.

(Signed by Ben Anderson)

BEN ANDERSON
Administrator
Business and Cooperative Programs