

Business and Industry Guaranteed Loan Program

RD Instructions 4279-A and B

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Business and Industry Guaranteed Loan Program

- Purpose is to improve, develop, or finance business, industry, and employment, and improve the economic and environmental climate in rural communities
- Bolster the existing private credit structure through the guarantee of quality loans that will provide lasting community benefits
- Not intended for marginal or substandard loans or relief of lenders having such loans



Rural Area Definition

- Rural area definition: any area other than a city or town that has a population of greater than 50,000 inhabitants and any urbanized area contiguous and adjacent to such city or town.

Program Delivery

- The B&I program is delivered through a system of 47 State Offices.

<http://www.rurdev.usda.gov/StateOfficeAddresses.html>



Lenders

- Traditional Lenders - Federal or State chartered banks, Farm Credit Bank, Savings & Loans
- Other Lenders - legal authority, sufficient experience and financial strength to operate a successful lending program
- All lenders must have adequate experience and expertise to make, secure, service, and collect B&I loans

Borrower

- Any legal entity, Federally recognized tribal group, public body or individual
- Manufacturing, wholesaling, retailing, service oriented

Ineligible Borrowers/Purposes

- Charitable institutions
- Churches or church-controlled organizations
- Fraternal organizations
- Lending and investment institutions
- Insurance companies
- Businesses engaged in illegal activity
- Golf courses
- Complete list located in RD Instruction 4279-B, Section 4279.114

<http://www.rurdev.usda.gov/SupportDocuments/4279b.pdf>



Ineligible Borrowers/Purposes Cont'd

- Lines of credit
- Lease payments
- Guarantee loans made by other Federal agencies
- Distribution or payment to an owner, beneficiary, or a close relative of the owner, when owner will remain an owner
- Federal tax-exempt obligations
- Loans with direct or indirect conflicts of interest

Loan Purposes

- Real estate purchase and improvements
- Machinery and equipment
- Working capital
- Debt refinancing and business acquisitions -
under certain conditions

Fees, Loan Limits and Percentage of Guarantee

➤ Fees

- Initial Guarantee Fee – 2 or 3 percent
- Annual Renewal Fee - .25%

➤ Loan Limits

- \$10 Million without Administrator exception (no exceptions in FY '11 and FY '12 due to limited funds)
- \$25 Million to any one borrower
- \$40 Million for rural cooperative organizations

➤ Percent of Guarantee Limits

- 80 Percent for loans less than \$5 million
- 70 Percent for loans between \$5 and \$10 million
- 60 Percent for loans over \$10 million



Loan Structure

- Negotiated by the lender and borrower and approved by the Agency
- Fixed/Variable/Combination
- Reasonable and Customary
- Maximum terms
 - Real estate - 30 years
 - Machinery and equipment - the lesser of 15 years or useful life
 - Working capital - 7 years
- No balloon payments

Equity

Tangible Balance Sheet Equity -

- Financial statements prepared in accordance with GAAP, except for the Coop Stock Purchase Program where financial information may be provided that is generally accepted by commercial agricultural lenders
- Minimum of 10 percent for existing businesses
- Minimum of 20 percent for new businesses
- Minimum of 25-40 percent for energy projects
- Intangibles - goodwill, R&D, amortized loan costs, customer lists, etc.
- Appraisal surplus not allowed
- Subordinated debt is debt not equity

Collateral

- Sound and sufficient to protect interests of the lender and Agency (normally discounted value will be at least equal to the loan amount)
- Appropriately discounted
- B&I Guarantee is not collateral
- Cannot secure unguaranteed portion with additional collateral

Feasibility Study

- Economic
- Market
- Technical
- Financial
- Management

Appraisals

- Qualified Appraiser; state certified general appraiser for real estate and improvements
- R/E appraisals must meet FIRREA and USPAP standards
- Chattel values in accordance with normal banking practices

Planning and Performing Development

Lender responsibilities include:

- Design policy
- Project control

Insurance

- Hazard
- Life
- Worker Compensation
- Flood
- Other

➤ **B&I Loan Processing Branch**

- Fred Kieferle – (202) 720-7818
- Brenda Griffin – (202) 720-6802
- Todd Hubbell – (202) 690-2516
- Lisa Siesennop – (202) 690-3810

<http://www.rurdev.usda.gov/Home.html>





Questions?



Committed to the future of rural communities.