



USDA Rural Development Business and Industry Guaranteed Loans

What is the Business and Industry Guaranteed Loan Program?

The U.S. Department of Agriculture (USDA) through its Rural Development Business and Industry (B&I) Guaranteed Loan Program guarantees loans made by eligible lenders to rural businesses. Rural Development's (RD) mission is to increase economic opportunity and improve the quality of life for all rural Americans. The B&I program's primary purpose is to improve the economic and environmental climate in rural areas by improving, developing, or financing business, industry, and employment. The program covers any areas other than a city or town that has a population of greater than 50,000 inhabitants and the urbanized area contiguous and adjacent to such a city or town.

How can banks benefit from participating in the B&I program?

The B&I program offers bank's five main benefits:

- The federally guaranteed portion of the loan is protected against loss, reducing lenders' credit risk exposure.
- There is an active secondary market for B&I guaranteed loans (e.g., Farmer Mac II and Small Business Administration markets) providing lenders with liquidity options.

- Lenders have the flexibility to use their own forms, loan documents, and security instruments.
- The guaranteed portion of the loan does not count against bank lending limits.
- [B&I guaranteed loans](#) may be considered to satisfy Community Reinvestment Act (CRA) requirements.

How do lenders participate in the B&I program?

Similar to the SBA loan programs, lenders originate the B&I loans to businesses. B&I lenders consult with USDA's RD state offices. RD staff process the pre-applications (when appropriate) or applications for the borrowers. [Forms and details](#) about the B&I application process are available at or through USDA RD state [offices](#).

Lenders are responsible for application preparation, ensuring credit quality, loan documentation, construction supervision (when appropriate), distributing loan funds, and loan servicing. In addition, lenders are responsible, in consultation with borrowers, for developing environmental impact analyses, where necessary. The Agency is responsible for a general review

of the lender's analysis of the credit. For further information, see [RD AN No. 4509 \(4279-A and 4279-B\) April 5, 2010](#).

What can B&I guaranteed loan funds be used for?

Most B&I loans are used for the following purposes:

- Business and industrial acquisitions;
- Business conversion, enlargement, repair, modernization, or development;
- Purchase and development of land; or Purchase of equipment, machinery, supplies, or inventory.

How are B&I loans typically structured?

- **B&I guarantees** are negotiated between the lender and the agency. The maximum percentage of guarantee is 80 percent for loans of \$5 million or less, 70 percent for loans between \$5 million and \$10 million, and 60 percent for loans exceeding \$10 million.

To increase financing for high-priority projects, the American Recovery and Reinvestment Act of 2009 provided a limited amount of 90 percent guarantee authority for loans of \$10 million or less.

- **Loan amounts** usually may not exceed \$10 million. At the RD Administrator's discretion, the loan limit may be increased to \$25 million. The USDA Secretary may approve guaranteed loans in excess of \$25 million, up to \$40 million, for rural cooperative organizations that process value-added agricultural commodities.
- **Loan terms** range from 7 to 30 years, depending on whether the loan is for working capital, equipment, or real estate.

- **Interest rates**, which may be either fixed or variable, are negotiated between the lender and the applicant.
- **Collateral** is required and must have documented value sufficient to protect the interest of the lender and the agency.
- **Renewal fees** are paid annually, usually by the borrower, and are required to maintain the enforceability of the lender's guarantee. The amount of the annual renewal fee is established by Rural Development. The annual renewal fee in effect at the time the loan is obligated remains the same for the life of the loan.

Who are the borrowers?

Eligible borrowers include businesses dealing in manufacturing, retail, wholesale, or services, which are operating as profit or nonprofit corporations, individuals, cooperatives, trusts, political subdivisions (municipal, county or other), and federally recognized Indian tribal groups.

What changes were made by the American Recovery and Reinvestment Act of 2009?

- **90 percent guarantee for high-priority loans:** USDA determines high-priority loans based on an established [scoring system](#) and loans that support quality jobs in distressed or underserved areas. Quality jobs mean that the borrower's business pays an average hourly wage rate of at least \$9.07 (more than 125 percent of the federal minimum wage). High-priority loans will be targeted to businesses located in a distressed or underserved community if the geographic area has any of the following:
 - High unemployment.
 - Historically has not benefited from B&I assistance or is a minority-owned or women-owned business.
 - Lost population from the 1970 census to the 2000 census.

- Over 20 percent poverty rate for the past 30 years.
- **Reduced guarantee fee:** The standard 2 percent B&I guarantee fee is halved to 1 percent of the guaranteed amount until September 30, 2010.
- **No annual renewal fee:** The standard annual renewal fee is temporarily eliminated until September 30, 2010, which offers significant borrower savings.

Additional information on B&I Loan Guarantee Program

[Program overview](#)

[Lenders Guide to B&I Guaranteed Loan Program](#)

[Processing Guide and Application Checklist](#)

[Program assessment](#)

[Secondary market information](#)

[USDA Priority Scoring System](#)