FREQUENTLY ASKED QUESTIONS

What is the B&I program?

The Business and Industry (B&I) Guaranteed Loan Program is a loan guarantee program designed to assist credit-worthy rural businesses obtain needed credit for most any legal business purpose. The intent is to save and create jobs in rural America.

How are you different from SBA?

The SBA 7(a) and Business and Industry Guaranteed Loan programs are similar in that a loan guarantee is provided, but the programs operate independently. The B&I program is specifically targeted to rural businesses. Rural Development has an extensive field structure of State and Area Offices that work closely with lenders in processing and servicing B&I loans. The lender and borrower work with a specific loan specialist in their State throughout the entire loan process. Other differences include a different fee structure and loan limits.

What are the benefits to the lender?

Benefits of the B&I Guaranteed Loan Program include:

- ***Legal Lending Limits***
  Some community and midsize banks with lower legal lending limits may find the B&I Guaranteed Loan Program useful for expanding their commercial lending business. The federally guaranteed portion of a B&I loan does not count toward a bank's legal lending limit. By utilizing the B&I Guaranteed Loan Program, lenders can make larger loans to some customers than they might otherwise be able to provide. The amount applied against the bank's legal lending limit is the nonguaranteed portion of the loan.

- ***Capital Requirements***
  The federal guarantee lowers a lender's risk-weighting for capital reserve requirements. Under the B&I Guaranteed Loan Program, the capital risk weight is "preferred"—much lower than for nonguaranteed loans.

- ***Community Reinvestment Act (CRA)***
  Loans made through the B&I Guaranteed Loan Program have the potential to receive CRA consideration as either a loan to a small business or a community development loan, provided they meet the geographic requirements of the CRA regulation.

- ***Profitability***
  There are several ways that the B&I program can help increase bank profitability. By minimizing credit risk and expanding the universe of business loans that they can originate, this product allows banks to earn fees and interest on loans they might not have otherwise made. Additionally, the guaranteed, and, to a lesser extent, the nonguaranteed, portion of a B&I loan can be sold into the secondary market. This process can generate fees and loans can be sold for a premium, depending on rate, maturity, and market conditions.

- ***Liquidity Management***
  Liquidity management policies for lenders typically direct them to have sufficient assets on their books that can be easily converted to cash if needed. There is a secondary market for the guaranteed portion of B&I loans. By selling these loan portions, lenders can help manage liquidity issues, which can enable them to recycle funds for new loans or use the proceeds for other purposes.

- ***Mitigating Risk***
  The B&I Guaranteed Loan Program generally provides a 60 percent to 80 percent federal guarantee on business loans depending on the size of the loan. This is a guarantee against loss. If there is a loss on the loan after liquidating the collateral, USDA will reimburse the lender for a portion of the loss, on a pro-rata basis, based on the percent of guarantee.

- ***New Business Development Opportunities***
  Lenders can offer eligible applicants B&I guaranteed loans that generally have better rates and longer terms than a conventional loan. Businesses receiving B&I loans may become repeat customers. Furthermore, B&I borrowers may open additional accounts with their lending institution, establishing full banking relationships, such as checking and payroll accounts.

What are the benefits to the borrower?
Borrowers can benefit from better pricing and terms with the B&I loan guarantee in place than are typically given with conventional loans. The loans must be fully amortized, without calls or balloon repayment structures. Longer terms can reduce additional loan fees that may be incurred in the future on shorter term loans or balloon loans. The interest rates for the loans are negotiated between the lender and the applicant and may be either fixed or variable (or a combination of fixed and variable). There is an active secondary market for the guaranteed portion of loans. Many buyers of guaranteed loans under the Small Business Administration (SBA) will also buy the guaranteed portion of USDA loans.

Am I an eligible lender?
Lenders under the supervision or subject to review by a Federal or State agency are eligible to participate in the B&I Program, including Federal and state-chartered banks, Farm Credit System banks, savings and loan associations, and insurance companies. Non-supervised lenders such as community development corporations and mortgage companies with successful commercial lending experience may apply for eligibility to the USDA.

How is Tangible Balance Sheet Equity determined?
In order to ensure that the business itself is solvent, the Agency requires that the borrower demonstrate minimum levels of tangible balance sheet equity. Specifically, a minimum of ten (10) percent is required for existing businesses. Twenty (20) is required for new businesses. Only business assets are included in the analysis. Subordinated debt and appraisal surplus are not considered. The B&I guaranteed loan may be for an amount to finance 100 percent of the borrower's capital needs if the business can meet collateral and equity requirements. .

What types of businesses are eligible?
Businesses with facilities located in rural areas that save or create jobs. Most types of businesses are eligible, including those engaged in the manufacturing, wholesale, retail and service industries. Eligible entities include partnerships, individuals, cooperatives, for-profit and non-profit corporations, including publicly traded companies, Tribal groups, or public bodies. Any size business may be eligible, but there are certain industries that may be restricted. Local economic development organizations and non-owner occupied facilities such as retail facilities may be considered.

How do I know if an area is "rural"?
Normally, projects seeking a B&I guaranteed loan need to be located in eligible rural areas, which include all areas other than cities or towns larger than 50,000 people and the contiguous and adjacent urbanized area of such cities or towns. Eligibility of a site may be determined by entering the address at the following website:
http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do

What are eligible uses of loan funds?
Loan proceeds may be used for essentially any business purposes, including but not limited to the following:

- Business acquisitions, construction, conversion, expansion, repair, modernization and development.
- Purchase equipment, machinery, and supplies.
- Start up costs and working capital.
- Debt refinancing under certain conditions.

Can funds be used to refinance a loan?
The debt refinancing must improve cash flow while creating or saving jobs. If a lender wishes to refinance a loan already in their portfolio, this must be a secondary purpose (less than 50% of loan) and the loan being refinanced must have been current for at least 12 months.

What are the fees?
There is a one-time guarantee fee currently set at three (3) percent of the guaranteed principal amount due when the guarantee is issued.

There is also an annual renewal fee required to maintain the guarantee. The rate of the annual renewal fee (a specified percentage) is established by Rural Development in an annual notice published in the Federal Register and is currently set at 0.50 percent. *The rate is the rate in effect at the time the loan is approved, and will remain in effect for the life of the loan.* All program fees are the responsibility of the lender but are typically passed on to the borrower. Other typical lender costs may also be assessed by the lender.

Are prepayment penalties allowed?
Yes, prepayment penalties are allowed.

What are the maximum loan terms?
Loan terms are negotiated between the lender and borrower, but are subject to program maximums that vary with the purpose of the loan. Terms may be blended, as appropriate:

- Working Capital 7 years
- Machinery and Equipment 15 years or useful life, whichever is less
- Real Estate 30 years

What interest rate structures are allowed?
Interest rates for loans may be fixed or variable, or a combination of fixed and variable. The rate is negotiated between the lender and the borrower and will not be more than those rates customarily charged to other borrowers in similar circumstances. Variable rates cannot be adjusted more frequently than quarterly.

Is the loan required to be fully secured?
Collateral must have a documented value sufficient to protect the interest of the lender and the Agency. Lenders must discount collateral consistent with sound loan-to-value policy, and the discounted collateral value must normally be at least equal to the loan amount.

Are Personal Guarantees Required?
Generally, unconditional personal and corporate guarantees are required from individuals and entities owning 20 percent or more of the borrowing entity.

What are the maximum percentages of guarantee?
The maximum percent of guarantee is based on loan size. The scale of maximum percentages is:

- 80 percent guarantee on loans up to and including $5 million
- 70 percent guarantee on loans greater than $5 million up to and including $10 million
- 60 percent guarantee loans greater than $10 million

A limited amount of guarantee authority for 90 percent guarantees on loans of $10 million and less is available on an annual basis for high priority projects.

What is the typical size for a B&I loan?
Typically, B&I loans range from $200,000 to $5 million, with an average size of about $3 million. There is no minimum loan amount, but loans cannot generally exceed $10 million without an exception.

When is the Loan Note Guarantee issued?
The guarantee is issued when the loan is closed and all conditions of the Conditional Commitment have been met. A B&I loan guarantee may be issued prior to completion of construction under certain conditions.

Is there an active B&I secondary market?
Yes. There is an active secondary market for the guaranteed portion of B&I loans. By selling these loan portions, banks can help manage liquidity issues, which can enable them to recycle

funds for new loans or use the proceeds for other purposes. Essentially, the secondary market enables lenders to enhance liquidity and increase profitability while limiting financial exposure.

Many lenders sell loans on the secondary market directly to investors. Because of loan amounts they are able to negotiate servicing spreads and sell loans at a premium on the sale of the loan.

B&I loans are also eligible to be sold or exchanged for securities to Farmer Mac. Farmer Mac is a federally chartered secondary market, much like Fannie Mae for single-family residential mortgage loans, but specifically geared to USDA (including B&I) guaranteed loans. Unlike the SBA secondary market where the lender's return comes primarily from the one-time sale of the guarantee at a premium, with Farmer Mac the lender continues to earn the full spread between the note rate and the Farmer Mac base rate.

What are the servicing responsibilities required by the Agency?
The lender is responsible for servicing the entire B&I loan (both guaranteed and nonguaranteed portions) in a prudent manner for the life of the loan. Generally, the B&I loan servicing requirements are fairly standard, but lenders should be sure to review the regulations and to discuss requirements with the relevant USDA – Rural Development field office staff. The lender needs to keep the Agency informed of the servicing actions being taken on the loan and obtain prior Agency concurrence for some non-routine serving actions such as subordinations, loan restructuring, bankruptcies, collateral releases, etc.

What are the reporting requirements?
In addition to servicing the loan, lenders must meet all the reporting and other communications required by the B&I Guaranteed Loan Program. These include the following:

- The lender must report the outstanding principal and interest balance on each guaranteed loan semiannually. The lender is required to report on defaulted loans bimonthly.

- At the USDA's request, the lender will meet with USDA staff to ascertain how the guaranteed loan is being serviced and that the conditions and covenants of the Loan Agreement are being enforced. These lender meetings are typically held annually.

- The lender must obtain the borrower's annual financial statements and submit them to the USDA. The lender also must analyze the borrower's financial statements and provide a written summary to USDA. Lenders are also asked to provide an annual report of the number of jobs employed by the borrower.

Who do I submit my reports to after closing the loan?
Lenders should work with their State Offices in determining who the contact person is for servicing the loan in that state. Semi-annual and loan default reports, as well as annual renewal fees, can be made online through the LINC system. Your State Office contact will provide you information on how to obtain an id and password for LINC.

What happens in the event of loan default?
The lender must notify the Agency when a borrower is more than 30 days past due on a payment or is otherwise in default of the Loan Agreement. Form RD 1980-44, "Guaranteed Loan Borrower Default Status," will be used and the lender will continue to submit this form bimonthly until such time as the loan is no longer in default. If a monetary default exceeds 60 days, the lender will arrange a meeting with the Agency and the borrower to resolve the problem.

How does USDA honor the guarantee?
The guarantee is supported by the full faith and credit of the United States and is incontestable except under the circumstances of fraud or misrepresentation of which the Lender has actual knowledge at the execution of the guarantee or of which the Lender participates in or condones. However, any loss payment on the loan will be reduced by the amount that the lender's actions or inactions resulted in loss.

Do all State Offices operate the same?
All State Offices operate under the same regulations and authorities and Rural Development strives for uniform, consistent program delivery. However, processing and servicing approval authority does vary from state to state, as well as the state allocation of B&I funding each fiscal year. Funding allocations are formula driven and are generally based on a state's rural population. When a State allocation is exhausted, funds may be requested from a National Office reserve account.

Applications are submitted to Rural Development's network of State and Area offices. Applications are received and processed in the appropriate Rural Development State or Area Office based on the location on the project to be financed. Most State Offices have authority to approve guarantees for loans up to between $5 and $10 million. Applications for loans exceeding the authority of the State Office are processed by the State Office but are submitted to the National Office loan committee for concurrence.

What is the application process?
The lender works with the borrower to submit an application to the Rural Development State Office where the business is located. The Agency will meet with all parties and make a preliminary determination of project acceptability. The Agency will work with the lender based on information submitted in the complete application. If the Agency finds the project eligible and creditworthy, the Agency will issue a Conditional Commitment, approving the loan guarantee subject to conditions. After the lender closes the loan, the Agency will issue the Loan Note Guarantee after verifying that all conditions have been met.

What type of environmental review is required?
As a federal program, all B&I assistance is subject the National Environmental Policy Act (NEPA) and other federal guidelines designed to assure that federally-supported projects do not harm the environment. Consequently, USDA must complete an environmental analysis on all B&I projects. The level and complexity of environmental review will depend on the scope of project.

How long does the application process take?
Upon receipt of a complete application, lenders can expect an Agency response in no more than 30 -60 days. Response times can vary based on complexity and scope of the project. For example, a construction project can take longer due to environmental clearances, whereas a refinancing project may be completed in a shorter timeframe.

Each State Office has its own approval authority. Contact your State Office representative for information regarding State Office approval versus National Office approval (which can impact the approval timeframe).

Where do I find the loan application form?
Commonly required forms for Rural Development Guaranteed Loan Applications

- Form RD 4279-1 (DOC, 316 KB) Application for Loan Guarantee (B&I and REAP Program)
- Form RD 4279-1A (DOC, 295 KB) Application for Loan Guarantee (B&I Short Form-One Doc and REAP Program) - for loans ≤$600,000
- Form RD 4279-2 - Certification of Non-Relocation & Market & Capacity Information Report - only for loans ≥$1MM creating ≥50 jobs
- Form RD 1940-20 - Request for Environmental Information

Where can I find the governing regulations?
Program regulations can be found at the following Web site:

- http://www.rurdev.usda.gov/rd_instructions.html

Program regulations for the B&I Guaranteed Loan Program are:

- General – RD Instruction 4279-A
- Loanmaking – RD Instruction 4279-B
- Loan Servicing – RD Instruction 4287-B

If I have further questions, who do I contact?
You should contact your State Office for additional information in the State in which the project is located. A list of offices and additional information can be obtained at http://www.rurdev.usda.gov/recd_map.html