

B&I Application and Processing



Committed to the future of rural communities.

Program Regulations

RD Instructions -

- 4279-A - general
- 4279-B - processing
- 4287-B - servicing

How to submit a loan application

- Contact your local Rural Development Business Programs Office, which can be found on our Web site:
www.rurdev.usda.gov
- It is best to screen the loan with a USDA loan specialist and submit a pre-application before getting too far along in the process

Items needed for a pre-application

- Applicant's name, organization type, address, contact person, and Federal tax identification and telephone numbers
- Amount of the loan request, percent of guarantee requested, and the proposed rates and terms
- Name of the lender, address, telephone number, contact person and lender's IRS identification number
- Brief description of the project, products, services provided and availability of raw materials and supplies

Pre-application, cont.

- Type and number of jobs saved or created
- Amount of borrower's equity and description of collateral, with estimated values, to be offered as security for loan
- If applicable, names and addresses of parent company, affiliates, and subsidiary, and a description of the relationship

Pre-application, cont.

- For existing businesses, a current balance sheet and a profit and loss statement not more than 90 days old, and financial statements for the borrower and any parent, affiliates, and subsidiaries for the 3 most recent years
- For start-up businesses, a preliminary business plan

Review

- Submitting a pre-application gives RD a chance to review the project before moving forward with a full application
- Once a review of the pre-application is complete, any concerns about the pre-application must be addressed and the lender may be asked to submit a full application.

Full Application

- Lenders and borrowers must complete and sign Form 4279-1
- If the loan is under \$600,000, Form 4279-1A may be used in lieu of the 4279-1
- The application must include other items that are listed in the next slides
- A complete list of application materials may be found in RD Instruction 4279-B, section 4279.161(b).

Application Checklist

- Lender's Written Analysis/Credit Memo that addresses borrower management, repayment ability, credit history, collateral, loan proceeds, etc.
- Credit Reports – Personal Credit Reports on all parties with 20% or more ownership and a Commercial Credit Report for existing businesses

Application checklist, cont.

- A current Balance Sheet and a Profit & Loss statement not more than 90 days old
- Three years of historical Balance Sheets and Profit & Loss Statements for the borrower and any parent, affiliates, and subsidiaries
- Current personal and corporate financial statements on any guarantors

Application Checklist, cont.

- A Pro Forma Balance Sheet projected for loan closing, and projected balance sheets, income and expense statements, and cash flow statements for the next 2 years
- Resumes of owners/management
- Number of jobs created/saved and the average wage

Application Checklist, cont.

- Form 1940-20, “Request for Environmental Information”
- Flood hazard determination on the site
- Appraisal

Application Checklist, cont.

- A business plan, which includes a description of the business and project, management experience, products and services, proposed use of funds, availability of labor, raw materials and supplies, and the names of any corporate parent, affiliates, and subsidiaries with a description of the relationship.

Application Checklist, cont.

- A Certificate of Need if applicant is a health care facility
- Form 4279-2, “Certification of Non-Relocation” ONLY if more than 50 jobs are created and loan is greater than \$1 million
- For companies listed on a major stock exchange or subject to the Securities and Exchange Commission regulations, a copy of SEC Form 10-K, “Annual Report”

Term Loan Agreement

- A draft term loan agreement must be sent as part of the application package
- The draft term loan agreement must address the following items:

Term Loan Agreement Checklist

- Prohibition against assuming liabilities or obligations of others
- Restriction on dividend payments
- Limitation on the purchase or sale of equipment and fixed assets
- Limitation on compensation of officers and owners

Term Loan Agreement Checklist

- Minimum working capital or current ratio requirement
- Maximum debt-to-net worth ratio
- Restrictions concerning consolidations, mergers, or other circumstances
- Limitations on selling the business without the concurrence of the lender

Term Loan Agreement Checklist

- Repayment and amortization of the loan
- List of collateral and lien priority for the loan including a list of persons and corporations guaranteeing the loan

Term Loan Agreement Checklist

- Type and frequency of financial statements to be required for the duration of the loan.
- The final Loan Agreement between the lender and borrower will contain any additional requirements imposed by the Agency in its Conditional Commitment.

Term Loan Agreement

- A section for the later insertion of any necessary measures by the borrower to avoid or reduce adverse environmental impacts from the proposal's construction or operation.

Loan Review

- The USDA loan specialist will meet with the lender and borrower at the place of business
- Loan specialist will evaluate the loan and present the loan to committee for approval
- Appraisal and environmental review must be complete before final approval

Feasibility Study

- Feasibility studies are required for start up businesses or if the project will significantly impact the business' operation.
- Study must be completed by a qualified independent consultant.

Environmental Review

- 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.
- This is in addition to any environmental review undertaken under Lender's environmental regulations and policies or in connection with collateral issues (e.g., Phase I or Phase II studies)

Three Levels of USDA Review/ Time Frames

1. **Categorical Exclusion**: No time delays
2. **Class I**: Could take 30 to 40 days depending on project. Often is started prior to receiving all info from lender
3. **Class II**: Could take 45 to 60 days depending on project

Examples for each Category

1. **Categorical Exclusion**: Refinance, equipment purchase, expansion or retrofit within existing facility.
2. **Class I**: Moving dirt, new construction typically involves more review.
3. **Class II**: Larger project or is adjacent to a protected area (wetlands, floodplain, coastal barrier, endangered species habitat, historical site, etc.)

Key to Environmental Process

- Talk to USDA RD specialist early in the process. A good project description and location will help reduce any time issues involved with the process.
- Also, if there are specific concerns they can be vetted up front.

The following projects may be **Class II**,
Class I, or **Categorical Exclusions**
depending on project:

- Expansion of real estate improvements on already-developed land
- New real estate improvements on undeveloped land
- Renovation/removal of 50+ year old building

Categorical exclusion

- Minimal change in use, size, capacity, purpose, & location of existing facility
- Exceptions: surface mining, logging/clearing of 35+ acres. Also, the presence of important resources (e.g., floodplain, prime farmland) may call for a higher level review.

Class I

- Further development or a previously-developed site
- Renovation/removal of 50+ year old building
- Development of an undeveloped site when the property is: a small site (generally <5 acres); a city lot; in a built-up commercial area; in an industrial park.

Class II if:

- Development of undeveloped site when the property is: a large site (>5 acres); or remote or undisturbed
- “Substantial” traffic congestion will be generated
- “Substantial” amounts of hazardous, toxic, radioactive or odorous waste will be generated

Class II, *cont.*

- Aquaculture facility development or expansion
- Group home/medical facility adding 25 beds or increasing number of beds by 25 or more

Construction

Lender responsibilities:

- Review plans and specs
- Use borrower funds first
- Obtain performance bond on contractor
- Monitor construction - cost overruns

Loan Approval

- Approval typically takes 30-60 days, depending on the complexity of the project.
- Once loan is approved, a Conditional Commitment (Form 4279-3) is issued that sets forth Agency requirements and conditions that must be met before a Loan Note Guarantee is issued.