

# **USDA Rural Development Business & Industry (B&I) Guaranteed Loan Program**



# Business and Industry Guaranteed Loan Program Mission

- Create and maintain 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



# Rural Development State Offices

- Each state has at least one Rural Development Office that processes B&I loans
- Contact the Business Programs Director or staff early in the process
- Visit our website at: [www.rurdev.usda.gov](http://www.rurdev.usda.gov) for a State Office Directory



# Why Obtain a Loan Guarantee?

- Allows lender to lend beyond its legal lending limit
- Mitigates collateral & other perceived risk
- Secondary market yield
- Expand loan portfolio
- Fee income

# Types of Lenders

- Traditional Lenders – Federal or State chartered banks, Savings & Loans, Farm Credit banks, Credit Unions
- Other Lenders – that have legal authority, sufficient experience and financial strength to operate a successful lending program

# Lenders, continued

- All lenders must have adequate experience and expertise to make, secure, service and collect B&I loans
- Program is not intended for marginal or substandard loans or relief of lenders having such loans

# Eligible Borrowers

- Any legal entity, including nonprofit organizations, Federally recognized tribal groups, public bodies and individuals
- Individual borrowers must be US citizens or permanent residents. Corporations must be at least 51 percent owned by US citizens or permanent residents.
- Must be in an eligible rural area



# Eligible Business Locations

- Rural Area – Anywhere except within the boundaries of a city or town with more than 50,000 inhabitants or the urbanized area of that city or town
- Eligibility can be determined at the following Web site:  
<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>





# Typical Loan Purposes

- Real estate purchase and improvements
- Machinery and equipment purchase
- Working capital
- Integrated agriculture production/processing facilities
- Debt refinancing and business acquisitions - under certain conditions

# 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

# Ineligible Borrowers/Purposes, *cont.*

- Lines of credit
- Lease payments
- Guarantee of 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

# Fees and Percentage of Guarantee

- Fees
  - Initial Guarantee Fee – 3% in most cases
  - Annual Renewal Fee – ½ of 1% \**subject to change*
- Percent of Guarantee Maximums
  - Greater than \$10 MM – 60%
  - \$5MM - \$10MM – 70%
  - ≤ \$5MM – 80%

# Loan Limits

- No minimum loan amount
- \$10 Million maximum without Administrator exception
- Up to \$25 Million to any one borrower
- Up to \$40 Million for rural cooperative organizations

# Loan Structure

- Negotiated by the lender and borrower
- Rates can be Fixed/Variable/Combination, but cannot vary more often than quarterly
- Origination fees and prepayment penalties are permitted
- No balloon payments

# Maximum Loan Terms

- Real estate - 30 years
- Machinery and equipment - the lesser of 15 years or useful life
- Working capital - 7 years

# Personal/Corporate Guarantees

- Unconditional personal and corporate guarantees are required from individuals and entities owning 20% or more interest in the borrower



# Tangible Balance Sheet Equity

- Financial statements must be prepared in accordance with GAAP (may be “In-house” financials)
- Minimum of 10 percent required for existing businesses
- Minimum of 20 percent required for new businesses
- Minimum of 25-40 percent required for energy projects, depending on certain criteria.

# Equity, continued

- Intangibles - goodwill, R&D, amortized loan costs, customer lists, etc. - must be removed
- Appraisal surplus and subordinated debt is not allowed; however, subordinated debt can be converted to stock

# Collateral

- Must be sound and sufficient to protect interests of the lender and Agency (normally discounted value will be at least equal to the loan amount)
- Must be appropriately discounted
- Cannot secure unguaranteed portion with additional collateral

# Discount Rates

- Real Estate – up to 80%
- Equipment – up to 70%
- Accounts Receivable – up to 60%
- Inventory – up to 60%
- If more generous discounting is used, lender must provide justification

# Appraisals

- Real estate appraisals must be completed by a State certified general appraiser and must meet FIRREA and USPAP standards
- Chattels are evaluated in accordance with normal banking practices and generally accepted methods of determining value.

# 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

- Environmental review process should be initiated as early as possible with RD office
- Complete Form RD 1940-20, Request for Environmental Information

# Required Insurance

- Hazard
- Life – (May be required)
- Worker's Compensation
- Flood
- Other (business interruption, etc.)



# Loan Application

- An assigned Loan Specialist is available by phone and in person to work with you in preparing loan application
- Decisionmaking is local for loans within delegated authority (\$5MM - \$10MM in most states)
- Pre-application enables lender to get a preliminary response without completing a full application.
- Application form is electronically fillable



# Agency Reviews the following:

- Borrower Eligibility
- Loan Purpose Eligibility
- Repayment Ability
- Sufficient Collateral & Equity
- Compliance with Statutes and Regulations

# Loan Approval

- Approval typically takes no more than 30-60 days
- Rural Development State Loan Committee meets to consider approving loan guarantee
- National Office Loan Committee approves loans above State's loan approval authority

# Conditional Commitment

- Establishes Agency loan requirements and conditions
- All conditions must be met before the Loan Note Guarantee is issued

# Loan Note Guarantee

- Loan Note Guarantee is issued at or immediately after loan closing
- Guarantee does not typically cover construction period, but can be considered on a case-by-case basis