
BUSINESS AND INDUSTRY LOAN GUARANTEES

Introduction

The office of USDA/Rural Development, through the Rural Business - Cooperative Service (RBS), is authorized to guarantee loans by eligible local lenders to businesses to benefit rural areas. The program's primary purpose is to create and maintain employment and improve the economic and environmental climate in rural communities. This is achieved by expanding the existing private credit structure capability to make and service quality loans to provide lasting community benefits. The Business and Industry (B&I) program typically guarantees losses on up to 80 percent of the original loan amount. Inability to obtain other credit is not a requirement.

Eligible Areas

Business and industrial loans can be guaranteed in rural cities up to 50,000 population. Priority is given to applications for loans in rural communities of 25,000 or less. New Jersey eligible areas are described in the enclosed attachment.

Eligible Borrowers

Any legal entity, including individuals, public and private organizations and federally recognized Indian tribal groups, may borrow. There is no size restriction on the business. Individuals and a majority of the owners of other entities must be U.S. citizens or persons legally admitted for permanent residence in the United States.

Eligible Lenders

Traditional lenders such as, state or federally chartered banks, savings and loan associations, mortgage companies that are part of a bank holding company or insurance company regulated by the National Association of Insurance Commissioners, are eligible lenders for participation in the B&I program. The Farm Credit Service Banks, Bank for Cooperatives and National Credit Unions are also eligible lenders. Other lenders with legal authority, adequate expertise, and sufficient capacity, may make application to the New Jersey USDA/Rural Development state office to participate in the program.

Eligible Loan Purposes

There is no requirement that the business be related to agriculture. Many lines of business including manufacturing, retail and wholesale trade, services and processing are eligible. Eligible loan purposes are as follows:

- Business and industrial acquisitions, construction, conversion, expansion, repair, modernization, or development costs
- Purchase of equipment, machinery or supplies
- Startup costs and working capital (term loans only)
- Pollution control and abatement
- Refinancing for viable projects, under certain conditions
- Tourist and recreation facilities, including hotels, motels and bed and breakfast establishments, except as prohibited
- Others

Ineligible Loan Purposes

- Line of credit
- Agricultural production, when eligible for Farm Service Agency (FSA) farmer program assistance and when it is not a part of an integrated business.
- Any project likely to result in the transfer of employment from one area to another.
- Pay any distribution to an owner or beneficiary who will continue in the business.
- Charitable institutions, churches, or church-controlled or fraternal organizations
- Lending and investment institutions and insurance companies
- Others

Maximum Loan Amount

Loan guarantees are limited to a maximum of \$10 million per borrower, although the Administrator can grant up to \$25 million.

Loan Guarantee Limits (maximum percentage applies to the entire loan)

- 80% up to \$5 million

- 70% over \$5 million to \$10 million
- 60% over \$10 million to \$25million

Collateral - Appraisals

All collateral must secure the entire loan. Repayment must be reasonably assured. Personal and corporate guarantees are required. A qualified appraisal report is required on property that will serve as collateral. Lenders will discount collateral consistent with sound loan to value policy.

Interest Rates

Rates may be fixed or variable. The rate is negotiated between the lender and borrower and is similar to those rates customarily charged to other borrowers in similar circumstances. A variable rate must be tied to a nationally published rate. Variable rates cannot be adjusted more than quarterly.

Maximum Repayment Terms

All loans must have a fixed repayment schedule (no balloons). The repayment terms are set by the lender within the maximum terms as follows:

- Working capital - 7 years
- Machinery and equipment - 15 years (or useful life).
- Real Estate - 30 years

Borrower Equity Requirements

A minimum of 10 percent tangible balance sheet equity is required at the time of issuing the loan note guarantee. Twenty percent tangible balance sheet equity is required for new businesses. Equity is developed in accordance with generally accepted accounting principles. Feasibility studies may be required.

Credit Quality

Each lender must address the business adequacy of equity, cash flow, collateral, history, management, and the current status of applicable industry in a written credit analysis.

Fees and Costs

A one-time guarantee fee of 2 percent of the guaranteed principal amount is paid by the lender and may be passed on to the borrower. Other typical lender costs may also be incurred.

Early Review

Preapplications/applications are filed with the lender who then forwards the package to USDA/Rural Development requesting the Guarantee. Application forms are available from USDA/Rural Development offices. It is recommended that lender loan officers contact the Agency to determine that the proposal fits into the overall purpose of the program. Eligibility, credit quality, and collateral should be scrutinized closely early in the process.

Other Requirements

Information will be required to comply with various laws and requirements. Environmental reviews may be necessary and the borrower will be required to supply the Agency with the information needed to complete the review. Projects must be in compliance with floodplain and wetland restrictions, Clean Air Act, Water Pollution Control Act, Historic Preservation and Equal Opportunity requirements.

This summary of the Business and Industry loan guarantee program provides general information and highlights about the program. For complete information, obtain copies of RD Instruction 4279-A & B which are available from USDA/Rural Development.

For additional information, contact:

USDA/Rural Development
 Attn: Community and Business Program Division
 5th Floor North, Suite 500, 8000 Midlantic Drive
 Mt. Laurel, New Jersey 08054

TEL (856) 787-7750
 FAX (856) 787-7783
 TDD (856) 787-7784