

USDA Rural Development
Biorefinery Assistance Program
(Section 9003)
Guaranteed Loan Program



Biorefinery Assistance Program Guaranteed Loan

- Program provides loan guarantees for the development, construction, and retrofitting of commercial-scale biorefineries



Goals of the Program

- Increase the energy independence of the United States
- Promote resource conservation, public health, and the environment
- Diversify markets for agricultural and forestry products and agricultural waste materials
- Create jobs and enhance economic development in rural America

Rural Development State Offices

- Each state has a Program Director and Energy Coordinator
- Program Director and Energy Coordinator to work with you on energy projects/applications
- Contact the Program Director early in the process
- [Click here to access contact information by state](#)



Why Obtain a Loan Guarantee?

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

Eligible Lenders

- Most lenders are eligible, including Federal or State chartered banks, Farm Credit banks, other Farm Credit System institution with direct lending authority, and Bank for Cooperatives
- Entities must be subject to credit examination and supervision by either an agency of the United States or a State

Lenders, cont.

- All lenders must have adequate experience and expertise to make, secure, service and monitor guaranteed loans
 - Experience with biorefineries and/or renewable energy projects, as appropriate
- Program is not intended for marginal or substandard loans or relief of lenders having such loans

Eligible Borrowers

- The borrower must be one of the following:
 - Individual
 - Entity
 - Indian tribe
 - Unit of State or local government
 - Corporation
 - Farm cooperative
 - Farmer cooperative organization
 - Association of agricultural producers
 - National Laboratory
 - Institution of higher education
 - Rural electric cooperative
 - Public power entity
 - Consortium of any of the above entities

Eligible Project Considerations

- Development/construction of commercial-scale biorefineries
- Eligible feedstock
- Majority of production must be advanced biofuel
- Refinancing eligible in certain circumstances

Eligible Business/Project Locations

- The project must be located in the United States, Commonwealth of Puerto Rico, Virgin Islands of the United States, Guam, American Samoa, Commonwealth of the Northern Mariana Islands, Republic of Palau, the Federated States of Micronesia, or Republic of the Marshall Islands
- The Biorefinery Assistance Program does not have a rural area requirement, but projects located in rural areas are provided priority in the scoring criteria



Eligible Project Costs

- Purchase and installation of equipment
- Construction or retrofitting
- Permit and license fees
- Working capital
- Land acquisition
- Cost of financing, excluding guarantee and annual renewal fees

Examples of Ineligible Purposes

- Lines of credit
- Lease payments
- Guarantee 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

Guaranteed Loan Limits

- Maximum loan amount is \$250,000,000
- There is no minimum loan amount
- Federal participation cannot exceed 80 percent of eligible project cost



Percentage of Guarantee

- Percent of Guarantee Maximums
 - Equal or less than \$125M – up to 90 %
 - Certain conditions must be met for 90 %
 - Up to \$150M – 80 %
 - More than \$150M, less than \$200M – 70 %
 - More than \$200M, up to \$250M – 60 %



Guaranteed Loan Fees

Guarantee Fee Structure

- 90 percent guarantee is 3% fee
- Less than 90 percent guarantee:
 - 2 % fee on guarantees for loans greater than 75 % of total project costs
 - 1.5 % fee on guarantees for loans of greater than 65%, but less than or equal to 75% of total project costs
 - 1.0 % fee on guarantees for loans of 65% or less of total project costs

Guaranteed Loan Fees (con't)

Annual Renewal Fee Structure

- 1% fee on guarantees for loans originally greater than 75 % of total project costs
- 0.75% fee on guarantees for loans originally greater than 65%, but less than or equal to 75% of total project costs
- 0.50% fee on guarantees for loans of 65% or less of total project costs



Loan Structure

- Negotiated by the lender and borrower
- Rates can be Fixed/Variable/Combination, but cannot vary more often than quarterly
- No more than 500 basis point spread between guaranteed and unguaranteed portion
- Origination fees and prepayment penalties are permitted
- No balloon payments
- The guarantee does not cover default interest

Maximum Loan Terms

- Maximum repayment period of 20 years or the useful life of the project

Terms – First Installment

- Interest only payments allowed for a period of up to three years from date of promissory note
- Loan must be fully amortized to eliminate any possibility of a balloon payment

Equity Requirement

- Borrower to provide equity in amount not less than **20 percent** of eligible project costs required at the time the loan is closed
- Equity must be in the form of cash and cannot include other direct Federal funding
 - For existing biorefineries, real property, equipment, and/or value of qualified intellectual property may be used (valued in accordance with GAAP) in whole or part to meet the equity requirement

Collateral

- Must be sound and sufficient to protect interests of the lender and Agency (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 percent
- Equipment – up to 60 percent
- Accounts Receivable – up to 60 percent
- Inventory – up to 60 percent
- Discount rates typically more conservative for energy projects/specialized equipment
- If more generous discounting is used, lender must provide justification

Appraisals

- Must use qualified/specialized appraiser
- Appraisals must meet FIRREA and USPAP standards

Feasibility Study

- All projects require an independent feasibility study and technical assessment as part of the application

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

- The following insurance may be required:
 - Hazard
 - Life
 - Worker's Compensation
 - Flood
 - Other (business interruption, etc.)

Loan Application

- Contact the Program Director in the State project will be located
- Approval authority resides with the National Office
 - Typically Biorefinery Assistance Program applications exceed State Office authority
 - State Office works in conjunction with National Office
- Energy guaranteed loan funding availability announced in a Notice in the Federal Register each fiscal year



Agency Reviews the Following

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

Loan Approval

- National Office Loan Committee approves loans
- National competition, approval times vary, Agency will be in contact with lender on each project

Conditional Commitment

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



Loan Note Guarantee

- Loan Note Guarantee is issued at closing or shortly after closing
- Loan Note Guarantee can be issued prior to or during the construction period