



OBTAINING A B&I GUARANTEED LOAN

Business & Industry (B&I) Processing Guide and Application Checklist

USDA Rural Development's Business & Industry (B&I) Guaranteed Loan Program helps rural businesses by guaranteeing the loans of commercial lenders who might not otherwise extend credit. The B&I guarantee is an incentive to spur business lending in rural areas.

ATTENTION BUSINESSES!

The B&I program is fundamentally a lender-driven process. USDA cannot consider a B&I proposal in detail until a lender expresses serious interest in the project. Nevertheless, USDA will gladly discuss prospective B&I projects with those businesses still seeking a lender so that they can be better informed when they approach potential sources of credit.

ATTENTION LENDERS!

Whenever a lender begins to seriously consider a loan for a possible B&I guarantee, they are encouraged to call USDA to discuss the project on an informal basis. USDA can give at least a tentative indication as to the eligibility of the project for a B&I guarantee. If you decide to proceed with a project, we suggest you first submit a preapplication only (see below). This saves time by allowing USDA to review the project at an early stage and better guide your efforts.

☞ **Screening questionnaire** for evaluating the suitability of potential B&I deals (see page 2).

THE APPLICATION PROCESS

A B&I application requires information from both the business and the lender, with the lender coordinating these efforts. The first step is to submit a preapplication (see page 3) for USDA's review. No forms are required for a preapplication! USDA will then arrange a meeting with all parties, usually at the project site. If the project appears viable, the parties are encouraged to submit a complete application (see page 4). Within 7 to 60 days of receiving a complete application (and normally much more quickly), USDA will make a final approval decision. B&I loan processing is coordinated by the Oregon USDA Rural Development State Office, but to provide timely service, selected USDA loan officers around the state (see page 8) do the processing. All loans up to \$10 million are approved by the Oregon State Office.

☞ **Application flow chart** (see page 7).

APPLICATION FORMS IN MICROSOFT WORD

USDA Rural Development-Oregon has developed Word versions of the B&I application forms, which can be downloaded from: <http://www.rurdev.usda.gov/or/bizglhelp.htm>

"ONE-DOC"

Note! Proposed B&I loans of \leq \$600,000 may be processed using an even more streamlined submittal. Refer to "Obtaining a B&I Guaranteed Loan with One-Doc" on our web site (see below).

B&I PROGRAM RESOURCES

Detailed information about the B&I program is available on the Oregon USDA Rural Development web site at: <http://www.rurdev.usda.gov/or/bi.htm> or more simply: <http://bi.ruraloregon.biz>
Or contact anyone on the Oregon Business Programs staff (see page 8).

A quick method for lenders to evaluate B&I loan prospects:

Viabile commercial loan project?
(The B&I program is not intended for marginal or substandard loans.)



Is the project located in a rural area?
(Refer to the "Eligible Areas" handout, or check with USDA.)



Is the business eligible for the B&I program?



Will jobs be created or made more secure?
(There must be a clearly identifiable jobs benefit.)



Special requirements:
Business is majority-owned by US citizens or permanent residents.
No 20% owners are US government/military employees.
Project does not involve relocation of more than 50 employees.
If lender is refinancing their own debt, this purpose is less than half of the loan.



Adequate Collateral Test
(using *current appraisal* values)
(Loans should be fully secured consistent with sound loan-to-value policy.)



Tangible Balance Sheet Equity Test
(using *depreciated cost basis* values)
10% minimum for existing businesses; 20% minimum for new businesses



Start-ups, recently-established, & financially-troubled businesses
An independent feasibility study is typically required.
(Untested products and markets will be viewed with caution.)



Environmental considerations
(Avoid development in floodplains, on prime farmland, etc.)



Priority scoring
(This is a concern only if funding is scarce)
Funding preference is given to projects for:

- » communities <25,000;
- » economically depressed or disaster-stricken areas;
- » high wage employers;
- » high impact businesses;
- » lower interest loans (≤Prime+1)

Exhibit A-1 – Contents of a B&I Preapplication

The following items constitute a “preapplication” and should be submitted before a field visit can be made. (Note that no forms are required at this stage.)

Completed Jointly by the Lender & Applicant:

1. A *joint* letter, on the lender’s letterhead, detailing:
 - a. *The Lender* – contact person, tax ID number
 - b. *The Applicant* – address, phone, contact person, tax ID number
 - c. *The Business* – product or service, NAICS code, date established, organization, ownership
 - d. *Its Financial Position* – assets, equity, any delinquent debt
 - e. *The Project* – total cost, source & use of funds, detail of applicant contributions
 - f. *The Site* – size (acres), current state of development, surrounding land use
 - g. *Employment Impact* – # of full-time equivalent jobs before & after project
 - h. *Average wage rate* – of all employees at the project
 - i. *The Loan* – amount, proposed interest rate & term
 - j. *Collateral* – proposed collateral, lien position, security value
 - k. *Legal or regulatory concerns* – Disclose any pending adverse action against the applicant or its affiliates, officers, or principals; or indicate that there are none.

The letter must indicate the lender’s willingness to finance the proposal.

A sample preapplication letter is on-line at: <http://www.rurdev.usda.gov/or/bizglhelp.htm>

Completed by the Applicant:

2. A map (e.g., a street, topographic, or parcel map) showing the exact location of the business, and indicating where any construction will occur.
3. A current balance sheet and year-to-date income statement (no more than 90 days old) for the business (including any parent, affiliate, and subsidiary firms). (*NOTE: Assets should be **valued at cost less accumulated depreciation.***)
4. Accountant-prepared, year-end financial statements for the preceding 3 fiscal years (or, if a new business, for as long as the business has been in existence).
5. Detailed projected income statements, balance sheets, and cash flow statements for the next 2 years, with an explanation of the assumptions used in the forecasts. *If desired, projections may be submitted for the first year only, with the second year submitted later as part of the complete application.*
6. A business plan. *Existing businesses may elect to submit this with the complete application.*

Completed by the Lender:

7. A *pro forma* balance sheet, derived from the current balance sheet (item 3 above), showing the business’s new assets and debts once the proposed loan project is completed. (*NOTE: Assets must be **valued at cost less accumulated depreciation.***) Use of the format provided on Exhibit B (page 6) is recommended.

Exhibit A-2 – Items Needed for a B&I Complete Application

In addition to the items mentioned in Exhibit A-1, the following information is needed for a final decision on a B&I request:

Completed Jointly by the Lender and Applicant:

1. Form 4279-1, “Application for Loan Guarantee (Business & Industry).” The form is on-line at: <http://www.rurdev.usda.gov/or/bizglhelp.htm>

Completed by the Lender:

2. The lender’s credit analysis of the proposed loan. This must include spreadsheets comparing the applicant’s past and projected financial statements, analyzing financial ratios, and comparing the business with industry averages.
3. A current appraisal of the property to be taken as security – real estate, equipment, etc. Real estate appraisals should be complete summary reports and must comply with the Uniform Standards of Professional Appraisal Practices. Equipment appraisals should report both a fair market value and an orderly liquidation value. (*NOTE: USDA has some discretion to approve a B&I guarantee subject to an adequate appraisal.*)
4. Credit reports. A commercial credit report on the applicant business, plus credit reports on all proposed personal and corporate guarantors (including all owners with a 20%-or-more interest in the business).
5. A draft of the lender’s proposed loan agreement with the borrower. Please note that it must address all of the following issues:

Negative Covenants:

- Limitations on purchase or sale of equipment and fixed assets.
- Limitations on compensation of officers and owners.
- Restriction on dividend payments.
- Restrictions concerning consolidations, mergers, or other circumstances.
- Prohibition against assuming liabilities or obligations of others.
- Limitations on selling the business without the concurrence of the lender.

Financial Standards Covenants:

- Minimum working capital or current ratio requirement.
- Maximum debt-to-net worth ratio.

Financial Reporting Requirements:

- Type and frequency of submission of financial statements. (*Note: The borrower and all guarantors must provide financial statements at least annually. Nonprofits and public bodies must meet federal audit standards in their financial reporting.*)

Completed by the Applicant:

6. Current (not more than 90 days old) financial statements on all owners of the business who will provide personal/commercial guaranties (normally, all owners with a 20%-or-more interest in the business).

Exhibit A-2 – Items Needed for a B&I Complete Application (continued)**NOTE: The remaining items are only required in special cases.**

Item 7 is only needed if the project involves a start-up business or one which has not yet established a sufficient profitable track record. USDA will determine whether or not this will be required:

7. A feasibility study – completed by an independent consultant agreed to by all parties – addressing the economic, market, technical, financial, and management feasibility of the project. *It should be contracted by the lender, but the cost may be included in the loan.*

Item 8 is only needed if the proposed loan is more than \$1 million and will increase direct employment by more than 50 employees:

8. Form 4279-2, “Certification of Non-Relocation and Market Capacity Information Report.” The form is on-line at: <http://www.rurdev.usda.gov/or/bizglhelp.htm>

Item 9 is only needed if the loan will be secured by real estate:

9. FEMA Form 81-93, “Standard Flood Hazard Determination” (flood zone certification)

Items 10 & 11 are only needed if the project involves construction:

10. Form RD 1940-20, “Request for Environmental Information.” **Complete items 1, (not 2), 3, & 4.** USDA will advise you if it is necessary to contact the State Historic Preservation Officer (SHPO). **The earliest possible submittal of this is encouraged to expedite USDA’s environmental review.** The form is on-line at: <http://www.rurdev.usda.gov/or/bizglhelp.htm>

11. “Supplemental environmental information”. The format is on-line at: <http://www.rurdev.usda.gov/or/bizglhelp.htm>

Item 12 is needed if the loan will be real estate secured:

12. All completed lender environmental questionnaires and studies (e.g., Transaction Screen Questionnaire, VISTA, Phase I or Phase II site assessment – as applicable) on the real estate, along with any mitigation/clean-up cost estimates. *USDA may request further studies.*

Item 13 is only needed if the applicant will be a franchisee:

13. A copy of the Uniform Franchise Offering Circular (UFOC).

Item 14 is only needed if the project is a commercial rental facility (retail center, office building, etc.):

14. List of committed tenants – including type of lease (triple net, etc.), lease term (years and options to renew), square footage, rental rate per square foot, and monthly rent.

Exhibit B: *Pro Forma* Tangible Balance Sheet Equity Calculation

Recommended format for calculating pro forma tangible balance sheet equity.

Instructions:

1. Attach the current balance sheet from which the “Beginning Position” (column 1 below) figures are taken. Be sure that the “Beginning Position” values are based on depreciated book value (cost), not current market values. If the applicant’s balance sheet is not prepared on a cost basis, provide an attachment explaining adjustments made to derive cost basis figures.
2. Deduct intangible assets (columns 2 & 3). Itemize intangible assets deducted in the explanation section below the table.
3. Debit and credit assets and liabilities (columns 4, 5, & 6) to reflect the effect of the B&I financing and other sources & uses of funds. Itemize debits and credits in the explanation section below the table. (Do not add assets which are intangible under Generally Accepted Accounting Principles -- e.g., take-out loan fees.)
4. Divide pro forma equity by pro forma total assets to determine % equity position.

Applicant: _____

Derived from Balance Sheet (attached) as of: _____

	1	2	3	4	5	6
	Beginning Balance Sheet Position	<i>less</i> Intangible Assets ¹	<i>equals</i> Tangible Beginning Position	<i>plus</i> additions ²	<i>less</i> subtractions ³	<i>equals</i> Pro Forma Tangible Position
Total Assets						
Total Liabilities						
Equity						
					%Equity =	

¹ Itemize intangible assets:

² Itemize additions:

³ Itemize subtractions:

Exhibit C:

B&I Loan Application Flowchart

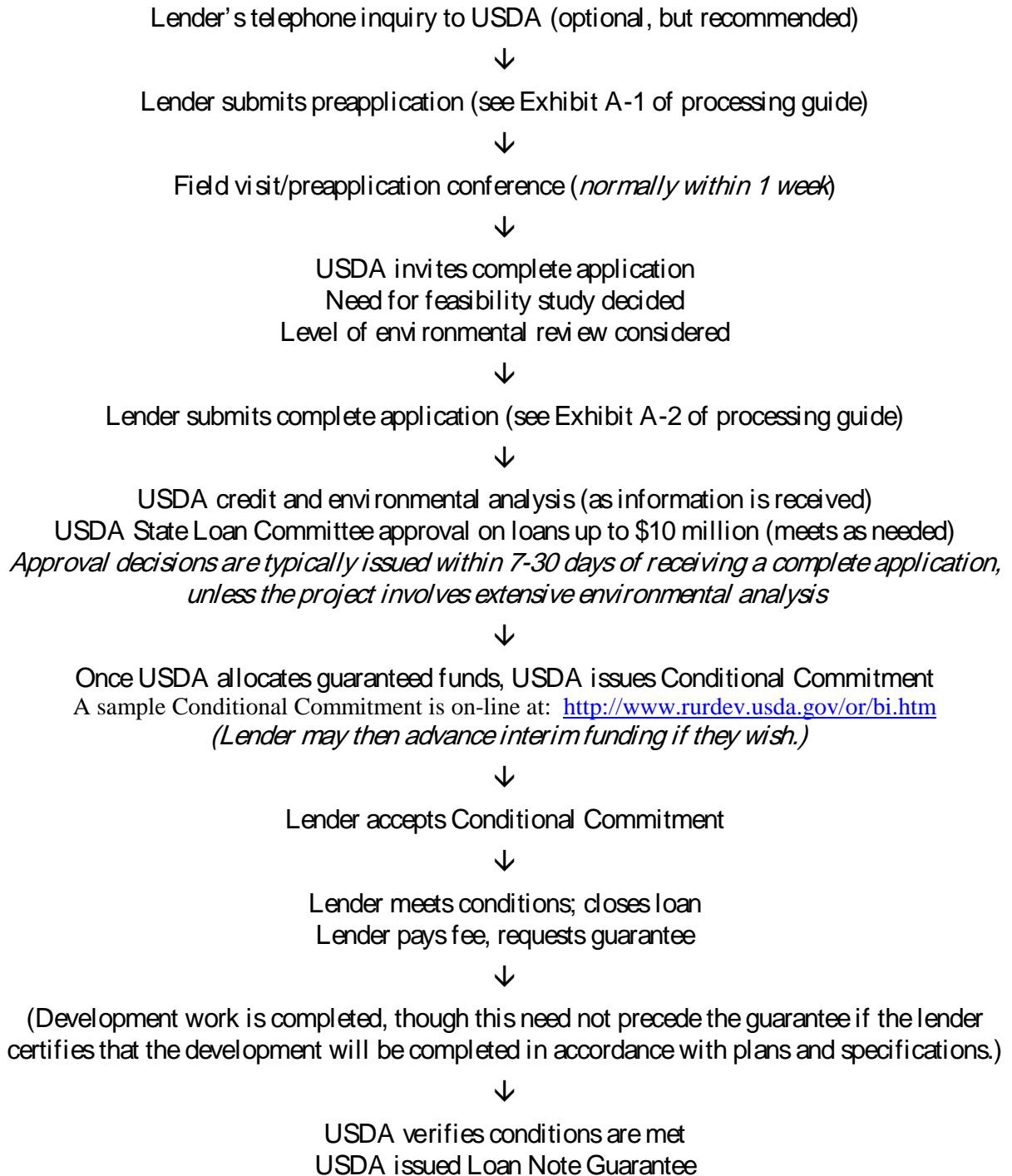


Exhibit D:

B&I Program contacts in Oregon:

Northwestern Oregon: Dan Streng, Business Programs Specialist
1201 NE Lloyd Blvd., Ste. 801, Portland, OR 97232
(503) 414-3368; fax 414-3397; dan.streng@or.usda.gov

Northwestern Oregon: Tom Simonson, Business Programs Specialist
4077 SW Research Way, Corvallis, OR 97333
(541) 750-7051; fax 752-9480; tom.simonson@or.usda.gov

Southwestern Oregon: Deanna Quimby, Business Programs Specialist
2593 NW Kline St., Roseburg, OR 97471
(541) 673-0136 x120; fax 672-3818; deanna.quimby@or.usda.gov

Central Oregon: Curt Dixon, Business Programs Specialist
625 SE Salmon Ave., Bldg. A, Redmond, OR 97756
(541) 923-4358 x125; fax 504-4396; curt.dixon@or.usda.gov

Eastern Oregon: Don Hollis, Business Programs Specialist
200 SE Hailey Ave., Ste. 105, Pendleton, OR 97801
(541) 278-8049 x129; fax 278-9070; don.hollis@or.usda.gov

Eastern Oregon: LaDonn McElligott, Business Programs Specialist
1901 Adams Ave., Ste. 1, La Grande, OR 97850
(541) 963-4178 x103; fax 962-1022; ladonn.mcelligott@or.usda.gov

Oregon State Office: Jeff Deiss, Business & Cooperative Program Director
1201 NE Lloyd Blvd., Ste. 801, Portland, OR 97232
(503) 414-3367; fax 414-3397; jeff.deiss@or.usda.gov