

RD AN No. 4633 (4279-B)  
March 9, 2012

TO: State Directors, Rural Development

ATTN: Business and Cooperative Programs Directors and  
Business and Community Programs Directors

SUBJECT: Business and Industry Guaranteed Loan Program  
Business Plans, Feasibility Studies, and Project Feasibility

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance and clarification regarding the importance of a properly completed business plan and feasibility study. Guidance is also provided on when a feasibility study should be required as provided under RD Instruction 4279-B, section 4279.150.

COMPARISON WITH PREVIOUS AN:

This AN updates and replaces RD AN No. 4538 (4279-B), dated September 30, 2010, which expired September 30, 2011.

IMPLEMENTATION RESPONSIBILITIES:

RD Instruction 4279-B, section 4279.161(b)(12), requires a business plan as part of the application material. It is not acceptable to have various pieces of information throughout the file. Business plans identify goals and outline strategy to achieve these goals. It helps define the business and explain in detail how the venture will operate in the current market. It functions as the tool that helps the business stay focused on its objectives. The business plan can be used as a benchmark to identify achievements as well as areas of improvement. It must be seen as a working document that continually is used to evaluate progress and clarify goals for the future.

EXPIRATION DATE:  
March 31, 2013

FILING INSTRUCTIONS:  
Preceding RD Instruction 4279-B

Business plans typically provide a detailed analysis in the business and financial sections of such variables as detailed product and development information, the makeup and qualifications of management team; sources of capital; describing as much in detail how the business will operate; product pricing, input costs, fixed and variable; 2 years of projections including income statement, balance sheet, statement of cash flows, along with a breakeven analysis; current competitors, marketing plan; the length of time necessary to acquire customers; contracts in place; distribution channels; how the new venture can expand its customer base; patents, investors and suppliers. Business plans also typically include substantiation of all assumptions made in the plan along with any supplemental information and important references.

Although RD Instruction 4279-B, section 4279.150, states that an independent feasibility study may be required, it is strongly suggested that a comprehensive feasibility study be obtained on all startups, on existing businesses entering a new market area, for business acquisitions, and on existing businesses where the loan will result in a significant expansion of the business. If you decide not to require a feasibility study, document your decision and the reasons for it in the loan file.

You should ensure that the lender completes a thorough analysis and evaluation of submitted feasibility studies to determine if the study meets Rural Development (Agency) needs and to determine the potential success of the business. RD Instruction 4279-B, Appendix A, contains the minimum components the Agency believes are necessary for an acceptable feasibility study. The feasibility study should reach a conclusion as to the overall potential success of the business.

A business plan and a feasibility study are very different. A business plan, which may be prepared by the business itself, is a plan of all aspects of a business operation and should be obtained with every application. A feasibility study, which must be prepared by a qualified, independent consultant, is an evaluation of the chances of success in terms of economic, market, technical, financial, and management feasibility. However, if a feasibility study is required and contains all the information required in a business plan, then the requirement for a business plan may be omitted. **The income approach of an appraisal is not a feasibility study.**

In cases where the site has been chosen, the feasibility study should assess the feasibility of the specific site as part of the overall feasibility of the project. In certain cases, a specific site has not been chosen at the time the feasibility study is completed. In these cases, the study should identify specific attributes of a site that are necessary for the project to be successful (i.e., infrastructure, location, size). In these limited cases, in order to present a meaningful feasibility study, the business plan submitted with the application must contain adequate information on the specific site selected for the project. The applicant, the lender, and the Agency are responsible for reviewing the site to determine that it meets the attributes outlined in the feasibility study. The Agency review does not relieve the lender of its responsibilities under the terms of the regulations, Form RD 4279-4, "Lender's Agreement," Form RD 4279-5, "Loan Note Guarantee," and Form RD 4279-6, "Assignment Guarantee Agreement."

In limited complex cases when the Agency cannot determine if the selected site meets specific attributes identified in the feasibility study, a third-party may be required to evaluate the site to determine if it meets the requirements identified in the independent feasibility study.

Projects that are proposed to be completed in multiple phases must generate cashflow to meet the repayment obligations of each phase being financed and have adequate collateral coverage. If the phases are dependent upon one another for success, the project should be considered as one and the loan amounts combined to determine the maximum percentage of guarantee in accordance with RD Instruction 4279-B, section 4279.119(b).

There may also be cases where discretion should be used to determine if a partial feasibility study is more appropriate under certain circumstances. Such projects may be reviewed on a case-by-case basis and documentation should be in the loan file that supports the decision for an abbreviated feasibility study. For example, an existing business with a history of success that is undergoing a significant expansion, but has long-term, experienced management, may not need management evaluated in a feasibility study. As another example, the construction of a convenience store may not need the technical part of a feasibility study. If you decide to not require the economic, market, technical, financial, or management part of a feasibility study, please ensure that your decision is thoroughly documented and supported in the loan file.

If you have any questions, please contact the Business and Industry Loan Processing Branch at (202) 690-4103.

*(Signed by JUDITH A. CANALES)*

JUDITH A. CANALES  
Administrator  
Business and Cooperative Programs