



## **USDA RURAL DEVELOPMENT BUSINESS AND COOPERATIVE PROGRAMS**

### **Business and Industry Guaranteed Loan Program A Guarantee to Help Businesses Save or Create Jobs**

*The Business and Industry (B&I) Guaranteed Loan Program guarantees loans by eligible local lenders to businesses to benefit rural areas. The primary purpose of this program 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. Administered by USDA Rural Development, the program typically guarantees losses of up to 80 percent of the original loan amount. Inability to obtain other credit is not a requirement.*

#### **Benefits to Businesses**

- Higher loan amounts, lower interest rates and longer repayment terms to assist businesses that may not qualify for conventional lender financing.
- Assists a business in providing stability, growth, expansion, and rural employment.

#### **Benefits to Lenders**

- Provides lenders with another tool to expand their loan portfolio.
- Improves the economy and quality of life in rural communities.
- Reduces concerns regarding collateral/ appraisal issues often found in smaller communities.
- Allows lenders to make loans above their legal lending limits- improved liquidity.
- FHLB members may borrow against the collateral at a higher rate.

#### **Maximum Loan Amount**

- Loan guarantees are limited to a maximum of \$10 million per borrower, although the Business & Cooperative Programs Administrator may approve loans up to \$25 million.

#### **Eligible Areas**

- B & I loans can be made by commercial or other authorized lenders in rural areas including all areas other than cities of more than 50,000 people and their immediately adjacent urbanized area. Priority is given to applications for loans in rural communities of 25,000 population or less.

#### **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. Local economic development organizations can be considered. Individuals must be U.S. citizens or legally admitted for permanent residence. Entities must be at least 51 percent

owned by U.S. citizens or persons legally admitted for permanent residence.

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

- 80% for \$5 million or less.
- 70% for over \$5 million and up to and including \$10 million.
- 60% for loans exceeding \$10 million and up to and including \$25 million.

### **Collateral - Appraisals**

- All collateral must secure the entire loan.
- Personal and corporate guarantees are required for those owning 20 percent or more of the borrower.
- All collateral, including real property and personal property, must have an appraisal completed in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) of 1989.
- Lenders will discount collateral consistent with sound loan-to-value policy.

### **Equity Requirements**

- Existing Businesses - A minimum of 10 percent tangible balance sheet equity will be required at the time of issuance of the Loan Note Guarantee for existing businesses.
- New Businesses - A minimum of 20 percent tangible balance sheet equity will be required at the time of issuance of the Loan Note Guarantee for new businesses.
- Equity is calculated on balance sheets prepared in accordance with Generally Accepted Accounting Principles (GAAP).

### **Fees and Costs**

- A guarantee fee of 2 percent of the guaranteed principal amount is paid by the Lender to USDA and may be passed on to the Borrower. Small annual servicing fee.
- Lenders may charge the Borrower typical loan fees provided they are similar to those normally charged other Borrowers for the same type of loan in the ordinary course of business.
- Professional fees for services rendered in connection with the project, i.e. appraisers, accountants, loan packagers, attorneys, engineers, architects, etc. may be included as an eligible loan purpose.

### **Maximum Repayment Terms**

- Working Capital - 7 years
- Machinery and Equipment - 15 years, or useful life, whichever is less
- Real Estate - 30 years

### **Interest Rate**

- Interest rates may be fixed or variable. If variable, must be tied to a base rate agreed to by the Lender and the Agency, and may not change more often than quarterly
- Negotiated between Lender and Borrower. Must be similar to those rates charged other Borrowers in similar circumstances.

## **Business Plans and Feasibility Studies**

- A business plan is required for all Borrowers.
- Feasibility studies will be required for all start-up businesses or existing businesses when the project will significantly affect the borrower's operation.
- Feasibility studies will be completed by a qualified independent consultant and will address, at a minimum, economic, market, technical, financial, and management feasibility.

## **Credit Quality**

- The Lender is primarily responsible for determining credit quality and must address all of the elements of credit quality in a written credit analysis including adequacy of equity, cash flow, collateral, history, management, and the current status of the industry for which credit is to be extended.

## **Servicing/ Liquidation**

- The Lender is responsible for servicing the loan and obtaining annual financial reports from the Borrower. The Lender will conduct the liquidation if necessary.

## **Eligible Loan Purposes**

They include but are not limited to the following:

- Business and industrial acquisitions, construction, conversion, expansion, repair, modernization, or development costs.
- Purchase and development of land, easements, rights-of-way, buildings, or facilities.
- Purchase of equipment, leasehold improvements, machinery, supplies or inventory.
- Pollution control and abatement.
- Transportation services incidental to industrial development.
- Start-up costs and working capital.
- Processing and marketing facilities.
- Aquaculture, including conservation, development, and utilization of water for aquaculture.
- Commercial fishing.
- Commercial nurseries engaged in the production of ornamental plants and trees and other nursery products such as bulbs, flowers, shrubbery, flower and vegetable seeds, sod, and the growing of plants from seed to the transplant stage.
- Forestry, which includes businesses primarily engaged in the operation of timber tracts, tree farms, and forest nurseries and related activities such as reforestation.
- The growing of mushrooms or hydroponics.
- Feasibility studies.
- Refinancing for viable projects, under certain conditions. Existing lender debt may be included provided that, at the time of application, the loan has been current for at least the past 12 months (unless such status is achieved by the lender forgiving the borrower's debt), the lender is providing better rates or terms, and the refinancing is a secondary part (less than

50 percent) of the overall loan.

### **Ineligible Loan Purposes**

They include but are not limited to the following:

- Distribution or payment to an individual owner, partner, stockholder, or beneficiary of the borrower or a close relative of such an individual when such individual will retain any portion of the ownership of the borrower.
- Any project in excess of \$1 million that would likely result in the transfer of employment from one area to another and increase direct employment by more than 50 employees
- Any project in excess of \$1 million that would increase direct employment by more than 50 employees, if the project would result in an increase in the production of goods for which there is not sufficient demand, or if the availability of services or facilities is not sufficient to meet the needs of the business.
- Charitable institutions, churches, or church-controlled or fraternal organizations.
- Lending and investment institutions and insurance companies.
- Assistance to Government employees and military personnel who are directors or officers or have a major ownership of 20 percent or more in the business.
- Racetracks for the conduct of races by professional drivers, jockeys, etc., where individual prizes are awarded in the amount of \$500 or more.
- Any business that derives more than 10 percent of annual gross revenue from gambling activity.
- Any illegal business activity.
- Prostitution.
- Any line of credit.
- The guarantee of loans made by other Federal agencies.
- Owner-occupied housing. Bed and breakfasts, storage facilities, et al, are allowed when the pro rata value of the owner's living quarters is deleted.

### **Eligible Loan Purposes (continued)**

- Takeout of interim financing. Guaranteeing a loan after project completion to pay off a lender's interim loan will not be treated as debt refinancing provided that the lender submits a complete preapplication or application which proposes such interim financing prior to completing the interim loan. A lender that is considering an interim loan is advised that the Agency assumes no responsibility or obligation for interim loans advanced prior to the Conditional Commitment being issued.
- Fees and charges for professional services and routine lender fees.
- Agency guarantee fee.
- Tourist and recreation facilities, including hotels, motels, and bed and breakfast establishments, except as prohibited under ineligible purposes.
- Educational or training facilities.
- Community facility projects which are not listed as an ineligible loan purpose such as convention centers.

- Constructing or equipping facilities for lease to private businesses engaged in commercial or industrial operations.
- The financing of housing development sites provided that the community demonstrates a need for additional housing to prevent a loss of jobs in the area or to house families moving to the area as a result of new employment opportunities.
- Community antenna television services or facilities.
- Provide loan guarantees to assist industries adjusting to terminated Federal agricultural programs or increased foreign competition.

### **Ineligible Loan Purposes (continued)**

- Projects that are eligible for the Rural Rental Housing and Rural Cooperative Housing loans under sections 515, 521, and 538 of the Housing Act of 1949, as amended.
- Loans made with the proceeds of any obligation the interest on which is excludable from income under 26 U.S.C. § 103 or a successor statute. Funds generated through the issuance of tax-exempt obligations may neither be used to purchase the guaranteed portion of any Agency guaranteed loan nor may an Agency guaranteed loan serve as collateral for a tax-exempt issue. The Agency may guarantee a loan for a project which involves tax-exempt financing only when the guaranteed loan funds are used to finance a part of the project that is separate and distinct from the part which is financed by the tax-exempt obligation, and the guaranteed loan has at least a parity security position with the tax-exempt obligation.
- The guarantee of loans where there may be, directly or indirectly, a conflict of interest or an appearance of a conflict of interest involving any action by the Agency.
- Golf courses.
- The guarantee of lease payments.

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