



Business & Industry (B&I) Guaranteed Loan Program

Program Goal

Encourage the commercial financing of rural businesses, thereby:

- * creating and saving rural jobs
- * improving the economic and environmental climate of rural communities

☞ The B&I program is lender-driven. USDA guarantees the loan rather than lending directly.

A commercial lender requests the B&I guarantee, and, if approved, it makes (and services) the loan.

Type of Assistance

Federal guarantee for lenders on their rural business loans:

80% guarantee on cumulative loans to a single borrower up to \$5 million

70% guarantee on cumulative loans to a single borrower from \$5-10 million

Lender Benefits

Profit and liquidity – the guaranteed portion of the loan may be sold in an active secondary market.

Capital - the guaranteed portion of the loan does not count against capital requirements or lending limits.

Risk management - the guaranteed portion of the loan is protected against loss by a Federal guarantee.

B&I guarantees help lenders satisfy Community Reinvestment Act (CRA) requirements.

Lenders use their own forms, loan documents, and security instruments.

Size of Loans

No minimum; up to \$10 million. Usually, B&I loans range from **\$200,000 to \$5 million.**

Interest Rate, Term, Payment Structure, and Fees

Rate: Lender's customary commercial interest rate – negotiated by lender & business

Fixed or variable (but may not vary more often than quarterly)

Term: Working capital – 7 years maximum

Equipment – 15 years maximum (not to exceed useful life of collateral)

Real estate – 30 years maximum (not to exceed useful life of collateral)

Structure: Balloons are not permitted. Reduced payments may be scheduled in the first 3 years.

Fees: Lender's reasonable and customary fees okay – negotiated by lender & business

USDA presently charges an *initial guarantee fee* equal to **2%** of the guaranteed amount plus an annual *renewal fee* equal to **¼%** of the guaranteed amount. (*Note: Fees are subject to change.*)

Authorized Loan Purposes

Real estate, buildings, leasehold improvements, equipment, inventory, & *permanent* working capital.

Loan fees & costs (including B&I guarantee fee), professional services, and feasibility study costs.

Loan Limitations

Lines of credit cannot be guaranteed.

Construction projects:

A B&I guarantee may be issued *before* construction is completed if the lender will assure oversight.

The percent of guarantee is *not* typically reduced if it is issued before project completion.

Construction loan funds should not be advanced until USDA has approved the project.

Debt refinancing:

Refinancing is eligible if it results in an improvement in cash flow or eliminates a balloon payment.

If a lender wishes to refinance a loan already in their portfolio, this must be a secondary purpose (less than 50% of loan) & the loan must have been current for at least 12 months. However, B&I may guarantee a lender's interim loan if an application is submitted before the last scheduled draw.

Transfers of ownership: Acquisitions are eligible if they will create new jobs or prevent job loss.

Commercial lease projects (retail centers, office buildings, industrial facilities, etc.):

New developments and renovation projects are eligible. Transfer of ownership and debt refinancing projects are eligible only if there is some clearly demonstrable jobs benefit.

Owner-occupancy is *not* required. There must be enough committed tenants for break-even.

Community facility projects may be guaranteed provided the financing is not tax-exempt.

Lender Eligibility

Any Federal or State chartered bank; Farm Credit System; Bank of Cooperatives; Savings & Loan or Building & Loan Association; bank-holding company's mortgage company; credit union; or insurance company – subject to government credit examination and in good standing
Other lenders with commercial lending experience and financial strength may also be approved.
Lender's officers/directors/owners may not have a substantial financial interest in the borrower.

Borrower Eligibility

Most types of enterprises qualify – manufacturing, wholesale, retail, service – new or existing.
Project must be in a rural area – beyond any 50,000+ population city and its urbanized periphery.
Proprietorships, partnerships, corporations, LLC's, coops, trusts, nonprofits, tribes, public bodies
Majority ownership must be held by US citizens or permanent residents.
Any ownership by government or military employees must be less than 20%.

Ineligible businesses:

Owner-occupied and rental housing projects (Housing site development may be eligible.)
Golf courses, racetracks, and gambling facilities
Churches and church-controlled or fraternal organizations
Lending, investment, and insurance companies
Projects involving more than \$1 million *and* the relocation of 50 or more jobs

Production agriculture:

Eligible only if the farm is vertically-integrated, ineligible for FSA farm loan guarantees, & the agricultural production part of the loan is secondary (less than 50% *and* less than \$1 million).
Nursery, forestry, & aquaculture operations are eligible without these restrictions.

Underwriting and Security Requirements

The proposed operation must have realistic repayment ability.
New enterprises may be asked to obtain a feasibility study by a recognized independent consultant.
The business and its owners must have a good credit history.
The business must have tangible balance sheet equity position at loan closing/project completion of:
10% or more (for existing businesses)
20% or more (for new businesses)

There must be adequate collateral:

Real estate – using 80% or less of the appraised value
Machinery & equipment – using 70% or less of the appraised value
Inventory; accounts receivable (<90 days) – using 60% or less

Hazard insurance on collateral (*lesser of* loan amount *or* depreciated replacement value)

Key person life insurance may be required (decreasing term OK) – amount negotiated

Personal/corporate guaranties – normally from all proprietors, partners (except limited partners), or major shareholders (i.e., all those with a 20%-or-greater interest)

Inability to get credit elsewhere is NOT a requirement.

Application Process

Lender & business submit a *joint* preapplication to USDA, indicating a willingness to make the loan provided a B&I guarantee is approved.

USDA meets with all parties at the project site and makes a preliminary determination of project acceptability, normally within 15 days.

After complete application, approval in 1-2 weeks (if no construction); up to 60 days (if construction).

USDA issues a conditional commitment, approving the guarantee subject to conditions.

All B&I loans – up to \$10 million – are approved locally in Oregon.

The lender closes the loan and, after meeting USDA's conditions, requests the guarantee.

USDA issues the guarantee after verifying that all conditions have been met.

More information at: <http://www.rurdev.usda.gov/or/bi.htm> or contact:

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