

## **Rural lenders needn't wait for a new Federal loan guarantee program**

by Jeff Deiss, Business Program Director, USDA Rural Development, Portland, Oregon

Much is being written and discussed about how to re-engineer SBA guaranteed loan programs to help lenders respond to the “credit squeeze” on Main Street.

- In testimony before Congress, the Independent Community Bankers of America called for a “Super SBA 7(a) loan program”, involving streamlined, expedited delivery of 95% guarantees for business loans up to \$500,000, with reduced fees.
- The Coleman Report recently compiled 20 suggestions for Obama’s SBA, including more flexibility in allowable interest rates, larger loans, and increased guarantee percentages
- Congress itself is now mulling over the outlines of a new SBA guaranteed loan product that could provide up to many of the features mentioned above.

All of these ideas and developments are worthwhile and encouraging. But as anyone who has been involved in government programs knows, the development and roll-out of new programs takes time and once completed, the end product inevitably contains unforeseen pitfalls and surprises that take time to identify and correct.

Given the urgency of the current economic situation, can lenders and business borrowers really afford to wait for a “dream” guaranteed loan program?

What if there is already a Federal guaranteed loan product that offers many of the sought-after features? One that is tested, well-understood, and currently available to address the guaranteed lending needs of the “credit squeeze”?

USDA Rural Development’s Business & Industry (B&I) guaranteed loan program is just such a product. Consider some of its features:

- B&I provides 80% guarantees on loans up to \$5 million (and 70% on loans of \$5-10 million).
- B&I offers a “One-Doc” program similar to the old SBA “Low-Doc” model for loans up to \$600,000.
- B&I guarantee fees are relatively inexpensive – generally 1.6% (based on 2% of the guaranteed amount of the loan, typically 2% of 80%).
- B&I charges a once-a-year (rather than monthly) renewal fee of 0.25% of the guaranteed principal as of 12/31 – a fee that, though paid by the lender, may be passed on to the borrower.
- B&I allows lenders to use any published index and does not cap the spread, allowing the lender and borrower to negotiate the interest rate (though variable rates cannot reset more often than quarterly).
- Piggyback financing is not necessarily prohibited.

- Rural Development does its own lender reviews, and there is no lender charge associated with this.
- B&I underwriting decisions are generally made at the state-level, allowing lenders to interact directly with their Federal counterparts. Local delivery can mean that the Federal underwriter has increased awareness of local economic conditions and a greater sensitivity to extenuating circumstances.

Of course, no guaranteed loan program yet is perfect, and the B&I program does come with limitations:

- Only businesses located in rural areas can qualify. (However, “rural” typically means outside of Census defined “Metropolitan Statistical Areas”, leaving plenty of non-metro territory for B&I lending.)
- B&I’s “tangible balance sheet equity” rule sometimes disqualifies long-standing businesses.
- New construction projects are sometimes subject to extensive environmental scrutiny.
- The speed and quality of the B&I program’s delivery varies from state-to-state.

Nevertheless, lenders looking for an immediate answer to the twin riders of the current credit squeeze apocalypse – risk management and capital management – should consider taking another look at the B&I program.

In FY2008, B&I program activity exceed \$1.4 billion nationwide, the highest level ever for the program. There is some indication that the stimulus bill may triple the B&I program’s funding levels.

In Oregon, we are now promoting a “Rural Rebound” product to help rural lenders and businesses cope with the credit squeeze. Other states around the country are just as active and committed to helping rural businesses weather the economic downturn.

The opportunity to explore the B&I program has never been greater.

For details, check out RD-Oregon’s B&I web site at <http://bi.ruraloregon.biz> or <http://www.rurdev.usda.gov/or/biz.htm> or visit the USDA national B&I web site at \*\*\*

You can find your state’s local B&I representative by going to [http://www.rurdev.usda.gov/recd\\_map.html](http://www.rurdev.usda.gov/recd_map.html)

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