

United States Department of Agriculture

Rural Development



Business and Industry Loan Guarantees

♦ OBJECTIVES

To improve, develop or finance business, industry and employment by bolstering the private credit structure through the guarantee of quality loans which will provide lasting community benefits in rural areas.

♦ ELIGIBILITY REQUIREMENTS

50,000 population

U.S. Citizenship

No test for credit elsewhere

♦ ELIGIBLE LENDERS

Farm Credit Bank/Farm Credit System direct lender

Any Federal-State-chartered Bank

Mortgage Company (part of a bank-holding company)

Bank for Cooperatives

Credit Unions (subject to NCUA or state supervision)

Savings and Loan Association

National Rural Utilities Cooperative Finance Corporation

Insurance companies that are regulated by a National insurance regulatory agency or state

♦ CERTIFIED LENDER PROGRAM

Lenders of proven ability may qualify for the Certified Lender Program, in an effort to expedite loan approval. Lenders must meet eligibility criteria. Certified Lender status may be granted for up to five years. In many cases, a complete guarantee application from a Certified Lender need only consist of the application form, proposed loan agreement, environmental questionnaire and credit analysis.

♦ GUARANTEE

An obligation supported by the full faith and credit of the United States. Initial guarantee fee payable when issued, generally at the rate of 3% of the guaranteed principal amount; plus an annual renewal fee (rate established yearly in a Federal Register Notice – FY'13 is ½ % on guaranteed principal). Maximum payment to lender under the guarantee is guaranteed principal advanced to or assumed by the borrower, plus any interest due thereon. Guarantee limits are generally 80% for loans up to \$5,000,000 and 70% for loans between \$5,000,001 and \$10,000,000. Loans over \$10,000,000 are limited to 60% and require National Office approval.

♦ ELIGIBLE APPLICANTS

Individual

Cooperative

Legal Entity (profit or non-profit)

Partnership

Federally-or state- recognized Indian Tribe or tribal group

Corporation

♦ ELIGIBLE LOAN PURPOSES

Generally, any business purpose; EXCEPT the following:

Payment to owner who will retain an interest

Tax-exempt obligations

Transfer of employment areas

Golf courses or racetracks

Charitable, religious, or fraternal organizations

Overproduction

Lending, investment, or insurance institutions

Illegal activities

Government or military personnel owning 20% or more

Line of Credit

Guarantee of lease payments

Loans made by other Federal agencies

Businesses deriving >10% gross revenues from gambling

Residential housing, except with healthcare or assisted living

Agricultural production, except that which is part of an integrated business involved in the processing of agricultural products

♦ RATES AND TERMS

Negotiated between lender and applicant	Encourage utilization of secondary market
Fixed and/or variable	Rate on guaranteed portion cannot exceed that on unguaranteed

Terms are for useful life of the collateral or:

Real Estate	maximum of 30 years
Machinery and equipment	maximum of 15 years
Working Capital	maximum of 7 years

♦ CREDIT QUALITY

Lender is responsible for determining credit quality and a thorough analysis will be documented:

Cash Flow – sound, with reasonable assured repayment.

Collateral – sufficient to protect interests of lender/Government.

– sound loan-to-value policy, although may be less than normal with strong historical cash.

– lien priorities will be the same for both guaranteed and unguaranteed portions.

Industry – current status and outlook for the industry and associated regulatory climate.

Equity – sufficient investment by owners to provide creditors with reasonable protection.

– ability to survive normal economic downturn.

– ten percent minimum tangible balance sheet equity for existing businesses, and twenty percent for new businesses.

Management – adequately trained and experienced.

♦ FINANCIAL STATEMENTS AND REPORTING

Lender will determine the type and frequency, **except** that:

Annual statements prepared by an accountant in accordance with generally accepted accounting principles (GAAP) will be required.

Annual audited statements may be required for loan balances exceeding \$3 million.

♦ APPRAISALS

Lender is responsible for assuring that values are adequate. Real estate appraisals will comply with FIRREA and the appropriate guidelines of Standards 1 & 2 of USPAP. Personal property will be evaluated using generally accepted methods and normal banking practices.

♦ OTHER

Key person life insurance may be required.

Personal and corporate guarantees will be required of those with twenty percent or greater ownership interest or those providing significant revenues to the applicant.

Feasibility studies by qualified independent parties may be required for start-ups or significant changes in operations.

Lender and borrower are responsible for design, construction, contract documents and compliance with Equal Employment Opportunity and Americans with Disability Act.

Lender is responsible for informing the Government of any controversial environmental issues associated with a project.

Lender must retain at least five percent of the loan and it must be unguaranteed.

Lender is responsible for servicing the entire loan.

♦ PRIORITIES

As it becomes necessary to establish priorities among competing projects, the following will be considered:

- Persistent poverty
- High unemployment
- “High-impact” businesses
- Long-term population decline
- Leveraging other sources of financing
- Cities and towns under 25,000 population
- Pricing loans based on the secondary market
- Empowerment Zone and Enterprise Communities
- Requests for guarantees of less than the maximum
- Natural disaster or structural changes in local economic base

♦ EXAMPLES OF B & I LOANS IN MAINE

Bed & Breakfast	Hockey Arena	Septic & Sludge Processor
Grocery Store	Sandwich Shop	Medical Office Building
Blueberry Processor	Yacht Builder	Restaurant & Brewpub
Wood Products Mfr.	Freight Transporter	Industrial Coatings Applicator
Commercial Greenhouse	Nursing Home	Aviation, Parts & Service
Supermarket	Truck Sales	Food Supplier
Heavy Construction	Real Estate Holding	Non-Owner Occupied

♦ ADVANTAGES OF A GUARANTEE

To the borrower:

- Credit availability
- “Hands-on” technical assistance with the application
- Credit on more favorable terms, including the possibility of long-term fixed rates

To the lender:

- Negotiated rates
- Reduces risk/exposure
- Guarantee does not count against lending limits
- Enhanced return when sold in the secondary market
- Enables smaller banks to finance on a broader scale

To the community:

- Tax dollars
- Job creation
- Economic development

INQUIRIES

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Rural Development is an Equal Opportunity Lender, Provider, and Employer

SECONDARY MARKET

PATRICK T. DIXON

Carty & Company, Inc.

6263 Poplar Avenue, Suite 800

Memphis, TN 38119

Tel: (901) 767-8940 or 1-800-767-8940

Fax: (901) 766-6282

WEBSITE: www.cartyco.com

DANNY M. GRAY

Coastal Securities, Inc.

920 Memorial City Way, 11th Floor

Houston, TX 77024

Tel: (713) 435-4300 or 1-800-489-3232

Fax: (713) 435-4444

E-Mail: dmg@CoastalSecurities.com

WEBSITE: www.coastalsecurities.com

Vining-Sparks IBG

775 Ridge Lake Blvd.

Memphis, TN 38120

Tel: (901) 766-3000

WEBSITE: www.viningsparks.com

PATRICK KERRIGAN

Farmer Mac

Federal Agricultural Mortgage Corporation

1999 K Street, N.W., 4th Floor

Washington, DC 20006

Tel: 1-800-879-3276, Ext. 5560

Fax: (202) 872-7713

E-Mail: patrick_kerrigan@farmermac.com

RATES: www.farmermac.com

Morgan-Keegan & Company, Inc.

Morgan-Keegan Tower

50 North Front Street

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WEBSITE: www.MorganKeegan.com

MICHAEL THOMAS

United States Arbitrage Finance II

1870 The Exchange, Ste 230

Atlanta, Georgia 30339

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Fax: (404) 365-2050

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