



## **Rural Development Business and Cooperative Programs**

### **Business and Industry Guaranteed Loan Program**

#### **INTRODUCTION**

USDA Rural Development, as the lead federal agency in rural development programs, is involved in efforts to increase the jobs available in rural towns through loan guarantees to assist local lenders to provide the credit needed for expansion and preservation of jobs as well as improve the economic and environmental climate in rural communities.

The USDA Business and Industry (B&I) Loan Guarantee is designed to be an economic development tool. The program works with lenders and entrepreneurs to expand the existing private lending structure to qualified borrowers, by providing government guaranteed loans. The B&I loans are a cooperative effort by the Federal Government and private lenders to make available loans that may not otherwise be available in a rural setting. The guarantees allow the lenders to make larger loans, provide better rates and terms, and bring additional capital into the community through the sale of the guaranteed portion of the loan.

#### **RURAL AREA DEFINED**

The larger rural communities often provide a source of jobs for smaller nearby towns, so USDA Rural Development has expanded its traditional lending area to include cities of up to 50,000 in population. Priority is still given to towns of less than 25,000 people. The suburbs and urbanizing areas that surround cities of over 50,000 people have to be reviewed to determine if the area is eligible. The eligible area determination may be downloaded at:

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

#### **LOAN SIZE**

There is no minimum loan size, and the maximum loan size that will be considered is \$10 million. There are some exceptions up to \$25 million on businesses and up to \$40 million on rural cooperatives that process value-added agricultural commodities.

The applicant can be an individual, a partnership, corporation, cooperative or other legal entity, an Indian Tribe on a Federal or State reservation, or a public body. Individuals and a majority of the owners of other entities must be United States citizens or persons legally admitted for permanent residency of the United States.

*Committed to the future of rural communities*

"USDA is an equal opportunity provider, employer and lender."  
To file a complaint of discrimination write USDA, Director, Office of Civil Rights, 1400 Independence Avenue S.W.,  
Washington, DC 20250-9410 or call (800) 795-3272 (voice), or (202) 720-6382 (TDD)

## **TYPES OF ASSISTANCE**

- Eighty percent (80%) maximum guarantee on loans up to \$5 million
- Seventy percent (70%) maximum guarantee on loans from \$5 - \$10 million
- Sixty percent (60%) maximum guarantee on loans greater than \$10 million

## **ELIGIBLE LENDERS**

The lender may be a Federal or State chartered bank, Farm Credit Bank, or other Farm Credit institutions with direct lending authority, Bank of Cooperatives, Savings and Loan Association, mortgage company that is part of a bank holding company, or an insurance company regulated by the National Association of Insurance Commissioners. The Agency may grant Certified Lender Program status to qualified lenders.

## **QUALITY LOANS**

The Business and Industry program is unique in USDA Rural Development because there is no test for credit required. The applicant does not have to show that credit is not available elsewhere at reasonable rates and terms. USDA Rural Development is looking for quality loans that will support a stable employment source. Unprofitable, undercapitalized, and poorly managed businesses do not provide this stable employment source. The factors that USDA Rural Development looks for in determining loan quality include:

- ❖ **Equity** – Tangible balance sheet equity of ten percent (10%) or more is required at loan closing. A twenty percent (20%) equity position is required at loan closing for new businesses or where higher risk factors are present. For energy projects, the minimum tangible balance sheet equity requirement range at loan closing will be between twenty five percent (25%) and forty percent (40%).

Tangible balance sheet equity will be determined in accordance with Generally Accepted Accounting Principles.

- ❖ **Profitability** – The strongest applications are those that can show at least three years of profitability and cash flow adequate to service the debt. Applicants will be required to demonstrate repayment ability based on realistic projections supported by detailed assumptions used in preparing the projections. A comprehensive feasibility study conducted by a recognized independent consultant is required for startups and for any business where the proposed loan will significantly alter the nature of the business.
- ❖ **Management** – Management must demonstrate experience in the industry and competence in production, marketing, finance, and personnel management.
- ❖ **Collateral** – All collateral must secure the entire loan with no separate collateral for the unguaranteed portion of the loan. Collateral should include hard-asset collateral such as land, buildings, machinery and equipment but may also include accounts receivable, inventory, and other items of value. The maximum loan to value ratio is eighty percent (80%) of market value of real estate, sixty percent (60%) of book value of good inventory and accounts receivable (< 90 days), and an amount to be determined by USDA Rural Development on equipment and other items.

- ❖ **Guarantees** – Personal guarantees are required for those owning at least twenty percent (20%) of the business. Corporate guarantees are required of parent, subsidiary, or affiliate companies unless legally restricted or prohibited by existing contractual obligations. The lender may require life insurance against the risk of death of persons critical to the success of the business. Decreasing term is acceptable and the amount is negotiable.

### **ELIGIBLE LOAN PURPOSES**

There is no requirement that the business be related to agriculture. Many types of businesses including manufacturing, retail and wholesale trade, services and processing are eligible. USDA Rural Development does expect that the number of jobs supported will be in relationship to the amount of the loan request.

#### **Purposes for which the loan can be used include:**

- ◆ Business and industrial acquisitions
- ◆ Purchase of land, machinery, equipment, and inventory
- ◆ Construction, enlargement, or modernization
- ◆ Eligible fees and costs
- ◆ Educational or Training Facilities
- ◆ Tourist Facilities
- ◆ Hotels/motels
- ◆ Pollution control or abatement
- ◆ Recreation Facilities
- ◆ Working capital and start-up costs
- ◆ Owner-occupied housing (bed and breakfasts, storage facilities, et al) when the pro rata value of the owner's living quarters is deleted.
- ◆ Finance agricultural production of specialized crops such as aquaculture, commercial fishing, commercial nurseries, forestry, hydroponics, and mushrooms.
- ◆ Finance agricultural production of all crops, up to \$1 million and does not exceed fifty percent (50%) of total loan, when part of an integrated business and financing is unavailable through USDA Farm Service Agency.
- ◆ Finance commercially available energy projects that produce biomass fuel or biogas.
- ◆ Refinancing when it is determined that refinancing is necessary to improve cash flow and create new or save existing jobs. If a lender desires to refinance a loan already in their portfolio, it must be a secondary purpose (less than 50% of the loan), the lender must be providing more favorable rates or terms, and the loan must have been current for at least the past 12 months.

When the loan is to refinance outstanding Federal direct or guaranteed loans, without any new refinancing, the equity requirement may be determined using adjusted tangible net worth. Adjusted tangible net worth is tangible balance sheet equity plus allowed tangible asset appreciation and subordinated owner debt.

## **INELIGIBLE LOAN PURPOSES**

- Relocate jobs or to expand a business where an excess of supply of the goods or services already exists.
- Pay any distribution to an owner or beneficiary who will continue in the business.
- Transfer the ownership of a business unless the transfer is necessary to keep the business from closing, or will expand job opportunities.
- Finance charitable, religious, or fraternal organizations.
- Finance golf courses, racetracks, and gambling facilities.
- Lending, investment institutions, and insurance companies.
- Assistance to Government employees and military personnel who are directors, officers who own at least twenty percent (20%) in business.
- Any line of credit or revolving loan.
- The guarantee of lease payments or loans by other Federal agencies.

## **INTEREST RATES**

The loan guarantee provides additional assurance of repayment to the lender but the loan commitment is between the applicant and the lender. Interest rates will be negotiated between the applicant and the lender, and are not subsidized by USDA Rural Development. They may be either fixed or variable. In determining if the rates are reasonable, USDA Rural Development will take into consideration the rate at which guaranteed loans are being sold in the secondary market.

## **REPAYMENT TERMS**

The lender also sets repayment terms within maximum terms allowed by USDA Rural Development.

## **MAXIMUM LOAN TERMS**

- 30 years for real estate
- 15 years or usable life for equipment & machinery
- 7 years for working capital

All loans must have a fixed repayment schedule. No balloon payments at maturity.

## **APPLICATION PROCESS**

Applicants or lenders may file a preapplication requesting a determination of eligibility from USDA Rural Development. If it appears that the project is eligible and loan guarantee authority is available, a complete application will be encouraged.

Applications are filed with and completely underwritten by the lender, who then forwards that application to USDA Rural Development for a guarantee. Application forms are available from the USDA Rural Development State Office or online as discussed on page five (5).

Once an application is filed with USDA Rural Development, the review in the USDA Rural Development State and National Offices will take approximately thirty (30) to sixty (60) days. If the guarantee is approved, USDA Rural Development will issue a conditional commitment to the lender. A fee of two percent (2%) of the guaranteed portion of the loan is payable to USDA Rural Development when the guarantee is issued. An annual renewal fee is paid once a year and is required for the lender to maintain the enforceability of the guarantee. **(See Attachment A & B for guidance on file setup and stacking order for applications and pre-applications)**

### **OTHER REQUIREMENTS**

Information will be required by USDA Rural Development to comply with various laws and requirements. Environmental reviews may be required and the applicant must supply USDA Rural Development with the information required to complete the review. Projects must be in compliance with floodplain restrictions, Clean Air Act, Water Pollution Control Act, historical preservation, and equal opportunities requirements. USDA Rural Development will also consider State development strategies as identified through the intergovernmental consultation process.

### **ADDITIONAL RESOURCES**

This summary of the B&I program provides general information and highlights about the program. It is not intended to include all requirements and regulations. For complete information, obtain a copy of USDA Rural Development Instructions 4279-A, General Guaranteed Loan Making – Lender Responsibilities, 4279-B, Guaranteed Loan Making – Business and Industry Loans, and 4287-B, Servicing Business and Industry Loans which are available from a USDA Rural Development office or at: [http://www.rurdev.usda.gov/regs/regs\\_toc.html#4279](http://www.rurdev.usda.gov/regs/regs_toc.html#4279)

1. Scroll on Part 4279 or Part 4287
2. Click on PDF to view or print regulations

For additional information, please contact:

**Business and Cooperative Programs**

USDA RURAL DEVELOPMENT

101 South Main, Suite 102

Temple, Texas 76501

(254) 742-9780

**NOTE:**

**Applications and related materials must be submitted to the State Office of USDA Rural Development, 101 South Main, Suite 102, Temple, Texas 76501, ATTN: Business and Cooperative Programs.**

**ATTACHMENT A  
BUSINESS & INDUSTRY CHECKLIST  
COMPLETE APPLICATION**

Borrower \_\_\_\_\_

State \_\_\_\_\_

Lender \_\_\_\_\_

Type of Project \_\_\_\_\_

*(Refer to USDA Rural Development Instruction 4279-B, section 4279-161(b) Pages 23-26)*

**APPLICATION FILE**

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1. Form 4279-1, "Application for Loan and Guarantee," (Business and Industry)".  
Part A of the Application is completed by the applicant. Part B is completed by the Lender.
2. Dunn & Bradstreet DUNS # will be required. *Obtain a DUNS # at: <http://www.dnb.com>*  
Include a screen print of the DUNS # issued by Dunn & Bradstreet.
3. Form 4279-2, "Certification of Non-Relocation and Market Capacity Information Report," if applicable. If the application is for guarantee of a loan of more than \$1,000,000 and the project will create 50 or more new jobs you will also need to complete this form. This form is used to request a Department of Labor review that can take up to 60 days to complete.
4. Copy of Lender's Complete Written Analysis (See 4279.161(b)(8)).  
Lender's credit analysis must address the borrower's management, repayment ability including a cash flow analysis, history of debt repayment, necessity of any debt refinancing, and the credit reports of the borrower, its principals, and any parent, affiliate, or subsidiary.
5. Business Plan (See 4279.161(b), (12) of RD Instruction 4279-B  
*Business Plan includes, at a minimum, a description of the business and project, management experience, products and services, proposed use of funds, availability of labor, raw materials and supplies, and the names of any corporate parent, affiliates, and subsidiaries with a description of the relationship.* Any or all of these requirements may be omitted if the information is included in a feasibility study.

- **Please tab all information and use letter-size paper**

**NOTE:**

**Applications and related materials must be submitted to the State Office of USDA Rural Development, 101 South Main, Suite 102, Temple, Texas 76501, ATTN: Business and Cooperative Programs.**

6. Lender's Proposed Loan Agreement (See 4279.161(b)(11) of RD Instruction 4279-B)  
A proposed Loan Agreement or a sample Loan Agreement with an attached list of the proposed Loan Agreement provisions. The Loan Agreement must be executed by the lender and borrower before the Agency issues a Loan Note Guarantee.
6. A certification by the lender that it has completed a comprehensive analysis of the proposal, the applicant is eligible, the loan is for authorized purposes, and there is reasonable assurance of repayment ability based on the borrower's history, projections, equity, and the collateral to be obtained.
7. For companies listed on a major stock exchange or subject to the Securities and Exchange Commission regulations, a copy of SEC Form 10-K, "Annual Report Pursuant to sections 13 or 15D of the Act of 1934."

### **ENVIRONMENTAL FILE**

**(right position of docket)**

1. Form RD 1940-20, "Request for Environmental Information," and attachments, unless the project is categorically excluded under Agency environmental regulations.  
Contact USDA Rural Development to find out what level of environmental review will be required.
2. Intergovernmental consultation comments will be required. The Councils of Governments contact information is available on the Internet at: <http://www.txregionalcouncil.org/links.php>
3. Texas Historical Commission comments will be required.  
Contact Texas Historical Commission, Debra Beene, P.O. Box 12276, Austin, Texas 78711-2276.

### **FINANCIAL STATEMENT-FILE**

**(right position of docket)**

1. Current Balance Sheet (less than 90 days) of the business.
2. Proforma Balance Sheet as of loan closing of the business in accordance with Generally Accepted Accounting Practices (GAAP).
3. Two (2) years of projected year-end balance sheets, income and expense statements, and cash flow statements with appropriate ratios and comparisons with industrial standards (such as Dunn & Bradstreet or Risk Management Association). All data must be shown in total dollars and also in common size form, obtained by expressing all balance sheet items as a percentage of sales.
4. Financial Statements for the past three (3) years (Existing business only).
5. Aging of Accounts Receivable and Accounts Payable (Existing business only).

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1. Guarantor's Financial Statements (less than 90 days)
2. Credit Reports: A personal credit report from an acceptable credit reporting company for a proprietor (owner), each partner, officer, director, key employee, and stockholder owning 20 percent (20%) or more interest in the applicant, except for those corporations listed on a major stock exchange. Credit reports are not required for elected and appointed officials when the applicant is a public body.

### **FEASIBILITY FILE**

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A feasibility study by a qualified independent consultant may be required by the Agency for start-up businesses or existing businesses when the project will significantly affect the borrower's operations. An acceptable feasibility study should include, but not be limited to, economic, market, technical, financial, and management feasibility.

### **APPRAISAL FILE**

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1. Appraisals:
  - a) Real Estate – Prepared by State Certified General Appraiser.
    - In compliance with Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989.
    - In compliance with Standards 1 and 2 of the Uniform Standards of Professional Appraisal Practices (USPAP).
    - Less than one (1) year old.
    - Identify the lender and USDA Rural Development as the intended users.

Real estate appraisals are accompanied by a copy of the appropriate environmental site assessment (Phase I or Phase II). Real estate appraisals of undisturbed, virgin soil, does not require an environmental site assessment.

- b) Chattels - In accordance with normal banking practices and generally accepted methods of determining value.

**ATTACHMENT B  
BUSINESS & INDUSTRY CHECKLIST  
PRE-APPLICATION  
REQUIRED FOR LOANS EXCEEDING \$10 MILLION**

**Borrower** \_\_\_\_\_

**State** \_\_\_\_\_

**Lender** \_\_\_\_\_

**Type of Project** \_\_\_\_\_

**Refer to USDA Rural Development Instruction 4279-B, section 4279.161 (a), page 22**

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A letter signed by the borrower and lender containing the following:

- Borrower's name, organization type, address, contact person, and federal tax identification and telephone numbers.
  - Amount of the loan request, percent of guarantee requested, and the proposed rates and terms.
  - Name of the proposed lender, address, telephone number, contact person, and lender's Internal Revenue Service (IRS) identification number.
  - Brief description of the project, products, services provided, and availability of raw materials and supplies.
  - Type and number of jobs created or saved.
  - Amount of borrower's equity and a description of collateral, with estimated values to be offered as security for the loan.
  - If a corporate borrower, the names and addresses of the borrower's parent, affiliates, and subsidiary firms, if any, and a description of the relationship.
2. Form 4279-2, "Certification of Non-Relocation and Market Capacity Information Report," if applicable. If the application is for guarantee of a loan of more than \$1,000,000 and the project will create 50 or more new jobs you will also need to complete this form. This form is used to request a Department of Labor review that can take up to 60 days to complete.
3. For existing businesses:
- a current balance sheet,
  - a profit and loss statement not more than 90 days old,
  - financial statements for at least the 3 most recent years.
    - for the borrower,
    - and any parent,
    - affiliates, and
    - subsidiaries
4. For start-up businesses, a preliminary business plan must be provided.