

Business & Industry Guaranteed Loan Program

PURPOSE

The purpose of the Business & Industry Guaranteed Loan (B&I) program is to improve, develop or finance business, industry and employment and improve the economic and environmental climate in rural communities, including pollution abatement and control. This purpose is achieved through bolstering the existing private credit structure through guarantee of quality loans which will provide lasting community benefits. It is *not* intended that the guarantee authority be used for marginal or substandard loans or for relief of lenders having such loans.

DEFINITIONS

Eligible Lenders:

Traditional lenders: An eligible lender is any Federal or State chartered bank, Farm Credit Bank, other Farm Credit System institution with direct lending authority, Bank for Cooperatives, Savings and Loan Association or mortgage company that is part of a bank-holding company. These entities must be subject to credit examination and supervision by either an agency of the United States or a State. Eligible lenders may also include credit unions provided, they are subject to credit examination and supervision by either the National Credit Union Administration or a State agency, and insurance companies provided they are regulated by a State or National insurance regulatory agency. Eligible lenders include the National Rural Utilities Cooperative Finance Corporation.

Other lenders: Rural Utilities Service borrowers and other lenders not meeting the criteria of traditional lenders, of this section, may be considered by the Agency for eligibility to become a guaranteed lender provided, the Agency determines that they have the legal authority to operate a lending program and sufficient lending expertise and financial strength to operate a successful lending program.

Eligible Borrowers:

A borrower may be a cooperative, corporation, partnership, or other legal entity organized and operated on a profit or nonprofit basis; an Indian tribe on a Federal or State reservation or other Federally recognized tribal group; a public body; or any individual. A borrower must be engaged in or proposing to engage in a business. Business may include manufacturing, wholesaling, retailing, providing services, or other activities that will do one of the following:

- Provide employment
- Improve the economic or environmental climate
- Promote the conservation, development, and use of water for aquaculture
- Reduce reliance on nonrenewable energy resources by encouraging the development and construction of solar energy systems

Rural Area:

Includes all territory of a State that is not within the outer boundary of any city having a population of fifty thousand or more and its immediately adjacent urbanized and urbanizing area with a population density of more than one hundred persons per square mile, as determined by the Secretary of Agriculture according to the latest decennial census of the United States.

LOAN GUARANTEES

Eligibility requirements:

- Citizenship requirements - Loans to individuals will be made or guaranteed only to those who are citizens of the United States or reside in the United States after being legally admitted for permanent residence. At least 51 percent of the outstanding interest in any corporation or organization-type applicant must be owned by those who are either citizens of the United States or reside in the United States after being legally admitted for permanent residence.
- Be located in a rural area (50,000 population or less)
- For existing borrowers, have a minimum of 10% tangible balance sheet equity at the time the loan note guarantee is issued. For new businesses the minimum equity requirement is increased to 20%.

Size of loan:

The maximum size of loan that can be guaranteed is \$10 million. (The Administrator, under certain conditions, may increase the amount to \$25 million.)

Collateral:

Collateral must have documented value sufficient to protect the interest of the lender and the Agency, the discounted collateral value will normally be at least equal to the loan amount. Lenders will discount collateral consistent with sound loan-to-value policy. Some businesses are predominately cash-flow oriented, and where cash flow and profitability are strong, loan-to-value coverage may be discounted accordingly. A loan primarily based on cash flow must be supported by a successful and documented financial history.

Rates:

Negotiated between borrower and lender; may be fixed or variable

Maximum terms: Real Estate30 years
 Machinery and Equipment15 years
 Working Capital7 years
 Refinancing – may be based on the collateral the lender will take to secure the loan.

Rate of guarantee:

Cannot exceed 80% for loans of \$5 million or less; 70% for loans between \$5 million and \$10 million; and 60% for loans over \$10 million

ELIGIBLE USES

- Business and industrial acquisitions when the loan will keep the business from closing, prevent the loss of employment opportunities, or provide expanded job opportunities
- Business conversion, enlargement, repair, modernization, or development
- 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
- Startup costs and working capital
- Agricultural production, when not eligible for Farm Service Agency (FSA) farmer program assistance and when it is part of an integrated business also involved in the processing of agricultural products
- Examples of potentially eligible production include but are not limited to: an apple orchard in conjunction with a food processing plant; poultry buildings linked to a meat processing operation; or sugar beet production coupled with storage and processing. Any agricultural production considered for B&I financing must be owned, operated, and maintained by the business receiving the loan for which a guarantee is provided. Independent agricultural production operations, even if not eligible for FSA farmer programs assistance, are not eligible for the B&I program.
- The agricultural-production portion of any loan will not exceed 50 percent of the total loan or \$1 million, whichever is less.
- Purchase of membership, stocks, bonds, or debentures necessary to obtain a loan from Farm Credit system institutions and other lenders provided that the purchase is required for all of their borrowers. Purchase of startup cooperative stock for family-sized farms where commodities are produced to be processed by the cooperative
- 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

- Interest (including interest on interim financing) during the period before the first principal payment becomes due or when the facility becomes income producing, whichever is earlier
- Feasibility studies
- To refinance outstanding debt when it is determined that the project is viable and refinancing is necessary to improve cash flow and create new or save exiting jobs. 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
- 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 should be 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
- Construction 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 USES

- 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
- Projects in excess of \$1 million that would likely result in the transfer of jobs from one area to another and increase direct employment by more than 50 employees
- Projects 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 insufficient 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 lease payments

- 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
- 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. section 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 any 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 any appearance of a conflict of interest involving any action by the Agency
- Golf courses

APPLICATION SELECTION

Consideration will be given to applications based on a priority score. Points will be allowed only for factors indicated by well documented, reasonable projects that, in the opinion of RBS, provide assurance that the items have a high probability of being accomplished.

APPLICATION SUBMISSION

Borrower and lender jointly prepare a pre-application for loan guarantee and submit to the Rural Development State Office:

Rural Development
 Attn: Business & Community Programs
 4949 Kirschling Court
 Stevens Point, WI 54481
 (715) 345-7610 phone · (715) 345-7616 fax

ADDITIONAL INFORMATION

You can obtain additional information, copies of regulations, and complete application materials by contacting the USDA Rural Development State Office at 715-345-7610; RD.BCP.SO@wi.usda.gov.

Visit us on the web at http://www.rurdev.usda.gov/rbs/busp/b&i_gar.htm.

Flow Chart of Application Process

