



## 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% (maximum) guarantee on loans up to \$5 million
- » 70% (maximum) guarantee on loans from \$5-10 million
- » 60% (maximum) guarantee on loans greater than \$10 million up to \$25 million

Inability to get credit elsewhere is **NOT** a requirement.

### Lender Benefits

There is an active secondary market for B&I guarantees.

The guaranteed portion of the loan is protected against loss by a Federal guarantee.

The guaranteed portion of the loan does not count against lending limits.

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

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

### Interest Rate, Term, Payment Structure, and Fees

Rate: Lender's customary commercial interest rate – negotiated by lender & business  
Fixed or variable (but may not be adjusted 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 charges a one-time guarantee fee equal to 2% of the guaranteed amount.

Annual renewal fee: 0.25% (*Based on the outstanding balance of the guaranteed portion of the loan.*)

### Authorized Use of Loan Funds

Real estate, buildings, leasehold improvements, equipment, inventory, and working capital.

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

Commercially available energy projects that produce biomass fuel or biogas.

### Loan Limitations

Lines of credit cannot be guaranteed.

Debt refinancing:

The refinancing must create new jobs or secure existing jobs (e.g., by improving cash flow).

If a lender wishes to refinance a loan already in their portfolio, this must be a secondary purpose (less than 50% of loan) and the loan must have been current for at least 12 months.

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

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

No owner-occupancy required, but must have enough committed tenants to break even.

New developments and renovation projects are eligible. Transfer of ownership and debt refinancing projects are normally not eligible because these have no demonstrable jobs benefit.

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; bank holding company's mortgage company; credit union; or insurance company – subject to government credit examination and in good standing.

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 – any area other than a city or town that has a population of greater than 50,000 inhabitants and the urbanized area contiguous and adjacent to such city or town as defined by the latest decennial census of the United States.

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

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, and the agricultural production part of the loan is secondary (less than 50% and less than \$1 million)

Nursery, forestry and 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 borrower must have tangible balance sheet equity position at loan closing/project completion of:

- » 10% or more (for existing business)
- » 20% or more (for new business)
- » 25-40% (for energy projects)

There must be adequate collateral.

- » Real estate – using 80% or less of the appraised value
- » Chattels – using 70% or less of the appraised value
- » Accounts receivable (<90 days) – using 60% or less
- » Inventory – using 60% or less of the value

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)

**Application Process**

Applications are filed with and completely underwritten by the lender, who then submits a copy of the complete application which consist of 5 individual files (application file, environmental file, financial file, feasibility file and appraisal file) containing its applicable documentation to USDA Rural Development for a guarantee.

Once an application is filed with USDA Rural Development, the review will take typically about 60 days.

If the guarantee is approved, USDA Rural Development will issue a conditional commitment to the lender.

*Preapplications are required for guaranteed loans greater than \$10 million.*

**For additional information, contact the Rural Development State Office at (254) 742-9780.**