

# USDA RURAL DEVELOPMENT

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## Business & Industry Guaranteed Loan Program

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# RURAL AREA

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- Business must be located in a rural area
- Population of 50,000 or less
- Web site to determine eligibility:

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

# ELIGIBLE BORROWERS

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- Cooperative, Corporation, Partnership, Individual, Tribal Group or Public Body
- 51% owned by persons who are either U.S. Citizens or have been legally admitted for permanent residence

# INELIGIBLE BORROWERS

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- Churches, Charitable or Fraternal Organizations
- Lending, Investing or Insurance Companies
- Government employees and military personnel who are directors or officers or have 20% or more ownership in the business

# ELIGIBLE LOAN PURPOSES

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- Existing or Start-up Businesses
- Real Estate and Buildings
- Machinery & Equipment
- Term Working Capital
- Refinancing (max. 49% existing exposure)
- Nearly any business venture with a few exceptions

# INELIGIBLE LOAN PURPOSES

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- Agricultural Production
- Golf Courses
- Gambling
- Racetracks
- Housing
- Equity Distributions to Existing Owners  
(if maintaining any ownership)
- Line of Credit Loans
- Loans with Balloon Payments

# RATES & TERMS

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- Real Estate 30 years
- Building or Construction 30 years
- Machinery & Equipment 15 years
- Working Capital 7 years
- Debt Refinancing 30 years
  
- Interest Rate is Negotiated between Business & Lender – (*can be Fixed or Variable, adjusting not more than quarterly*)

# PERCENTAGE OF GUARANTEE & FEES

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- To \$5 Million.....up to 80%
- \$5 - \$10 Million.....up to 70%
- Over \$10 Million.....up to 60%
  
- Fee is 2% of Guarantee Amount  
( $\$500,000 \times 80\% \times 2\% = \$8,000$ )  
plus annual recurring fee – currently 1/4 %

# CREDIT REQUIREMENTS

## COLLATERAL

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- 1 to 1 coverage on a discounted basis
- Any reasonable, sound loan-to-value discount policy (consistent with non-guarantee loans)

*Generally:*

Real Estate/Buildings	75% of mkt value
M&E	60% of mkt value
AR & Inventory	60% of book value

**Required:** Limited, Personal Guarantees of anyone with 20% or more ownership in the business



# CREDIT REQUIREMENTS

## EQUITY

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- Existing Business 10%
- New Business/New Ownership 20%
  
- Tangible Balance Sheet Equity, as a % of Total Assets, on a Book Basis, according to GAAP  
*Must remove intangibles, subordinated debt and appraisal surplus from both assets and equity*

# CREDIT REQUIREMENTS (OTHER)

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- Adequate Cash Flow & Debt Service Ability
- Management Ability
- Acceptable Personal & Business Credit History

# LOAN PROCESS

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- Pre-application

- Lender's Credit Analysis

- Make sure it includes source & use of funds and a post closing pro-forma balance sheet*

- Financial Statements

- (5 to 10 Business Days)

- Can call anytime to get our feel of the proposal before submitting any information.

# APPLICATION

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- Field Visit
  - Application for Guarantee (*see packet*)
  - Business Plan or Feasibility Study (*see packet*)
  - Credit Reports
  - Proposed Business Loan Agreement
  - Environmental Assessment/SHPO
  - Appraisal
- (5 – 15 Business Days)

# LOAN PROCESS

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- Agency Credit Committee Approval
- Conditional Commitment is Issued  
6 Day Delay
- After Loan is Closed, submit Closing Docs.,  
Appraisal, Balance Sheet & Check for Fee
- Loan Note Guarantee is Issued After the Project  
is Complete

# PARTICIPATION OR SALE OF GUARANTEE

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- Lender may sell 100% of the Guaranteed Portion of the Note
- Lender may sell some of the unguaranteed portion of the Note
- Lender is required to hold in its own portfolio a minimum of 5 percent of the total loan amount.

# LOAN SERVICING REQUIREMENTS

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- Annual Financial Statements (GAAP)
- Annual Lender Analysis
- Annual Field Visit
  
- Liquidation is performed by lender with agency approval
- After applying sale proceeds, guarantee covers up to 80% of loss lender would have otherwise incurred.

# ARRA FEATURES

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- Guarantee Fee is reduced from 2% to **1%**
- Annual Renewal Fee is **ELIMINATED!**
- Opportunity for up to a **90% Guarantee** on loans up to \$10 million.

# FEATURES OF 90% GUARANTEE

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- Quality Jobs
  - 125% of federal minimum wage or \$9.07/hr.
- Distressed Community
  - High Unemployment
  - Underserved Area or Underrepresented Group
  - Persistent Poverty Area
  - Outmigration

Application must score 55 points in order to receive 90% guarantee.



# INELIGIBLE ARRA PROJECTS

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- Aquariums, museums, zoos
- Convenience Stores (unless the store provides “Quality Jobs” or sells or will sell E85 fuel upon completion of the project.)
- Hotels, motels, or other facilities with pools or water parks
- Golf courses, casinos, and other gambling establishments (which are ineligible under regular B&I as well)



# OTHER ARRA

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- Davis Bacon Laws – Construction Projects Only
- Buy American Provisions – Public Works Projects Only

# OTHER CONSIDERATIONS –

## *All B&I Guarantee Projects*

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- Refinancing Options
  - Three Types of Loans/Borrowers
  - Bank Holding Companies
- Participations













