

## USDA RURAL DEVELOPMENT

Business & Industry  
Guaranteed Loan Program

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## RURAL AREA

- 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>



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## ELIGIBLE BORROWERS

- 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



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**INELIGIBLE BORROWERS**

- 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



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**ELIGIBLE LOAN PURPOSES**

- 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



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**INELIGIBLE LOAN PURPOSES**

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



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**RATES & TERMS**

- 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)




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**PERCENTAGE OF GUARANTEE & FEES**

- 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 x 80% x 2% = \$8,000)  
 plus annual recurring fee -- currently 1/4 %




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**CREDIT REQUIREMENTS  
 COLLATERAL**

- 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




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**CREDIT REQUIREMENTS  
EQUITY**

- 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*



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**CREDIT REQUIREMENTS  
(OTHER)**

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



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**LOAN PROCESS**

- 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.



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## APPLICATION

- 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)



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## LOAN PROCESS

- 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



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## PARTICIPATION OR SALE OF GUARANTEE

- 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.



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**LOAN SERVICING REQUIREMENTS**

- 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.



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**ARRA FEATURES**

- 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.



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**FEATURES OF 90% GUARANTEE**

- 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.



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**INELIGIBLE ARRA PROJECTS**

- 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)



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**OTHER ARRA**

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



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**OTHER CONSIDERATIONS –**

*All B&I Guarantee Projects*

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



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