



Committed to the future of rural communities

## Business & Cooperative Programs

### BUSINESS AND INDUSTRY LOAN GUARANTEE PROGRAM

#### Overview

The Business & Industry Loan Guarantee Program is administered by the Rural Business and Cooperative Program Division of the USDA - Rural Development. USDA can guarantee loans by eligible lenders to businesses to benefit rural areas. USDA - Rural Development, can guarantee losses up to 80 percent of the original loan amount. Inability to obtain other credit is not a requirement.

#### Need for Program

The primary purpose of the Business & Industry Loan Guarantee Program is to create and maintain employment and improve the economic and environmental climate in rural communities. This is achieved by expanding the existing private credit structure capability to make and service quality loans to provide lasting community benefits.

#### Benefits to Businesses

- Higher loan amounts, stronger loan application, less equity injection, lower interest rates and longer repayment terms assist businesses that may not qualify for conventional lender financing.
- Assist businesses in stability, growth, expansion and rural employment

#### Benefits to Lenders

- Provide lenders with another tool to expand their loan portfolio
- Improve the economic and environmental living climate in rural communities
- Guarantee portion can be sold to enhance liquidity and increase profitability while limiting financial exposure
- Allows lender to make loans above its loan limits

#### Eligible Areas

Business and Industry loans can be guaranteed in cities up to 50,000 population with priority to applications for loans in rural communities of 25,000 or less.

#### Eligible Borrowers

Any legal entity, including individuals, public and private organizations and federally recognized Indian Tribal groups may borrow. There is no size restriction on the business. Local economic development organizations and investors may be considered.



Committed to the future of rural communities

## Business & Cooperative Programs

### Eligible Lenders

Most lenders are eligible, including national and state-chartered banks, Farm Credit System banks and savings and loan associations. Other lenders such as insurance companies and mortgage companies may be eligible if approved by USDA.

### Eligible Loan Purposes

- Business and industrial acquisitions, construction, conversion, expansion, repair, modernization or development costs
- Purchase equipment, machinery or supplies
- Start up costs and working capital
- Processing and marketing facilities
- Pollution control and abatement
- Refinancing for sound projects under certain conditions

### Ineligible Loan Purposes

- Line of credit
- Agricultural production with some exceptions
- Any project likely to result in the transfer of business or employment from one area to another
- Any project involving transfer of ownership - unless this will keep the business from closing, prevent the loss of jobs in an area, or provide more jobs
- Paying off a creditor in excess of the value of the collateral
- Payment to owners, partners, shareholders or others who retain any ownership in the business
- Corporations and businesses not at least 51% owned and controlled by U.S. citizens
- Charitable institutions, churches, organizations affiliated with or sponsored by a church or fraternal organizations
- Guarantee of lease payments

### Maximum Loan Amount

Business and Industry loans are limited to a maximum of \$25 million per borrower. Loans over \$5 million require National Office concurrence.

### Loan Guarantee Limits

Maximum percentage applies to the entire loan.

- 80% up to \$5 million
- 70% between \$5 - \$10 million
- 60% between \$10 - \$25 million



Committed to the future of rural communities

## **Business & Cooperative Programs**

USDA - Rural Development determines the percentage of guarantee based on:

- Borrower management
- Collateral
- Financial condition
- Lender's exposure
- Trends and conditions

### **Loan-to-Appraised Market Value Ratios**

The maximum loan-to-appraised market value ratios are typically:

- 80% Real estate
- 60% Accounts receivable
- 60% Inventory
- 70-90% Machinery/Equipment (project specific)

### **Interest Rate**

Interest rates for loans may be fixed or variable. The rate is negotiated between the lender and the borrower and will not be more than those rates customarily charged to other borrowers in similar circumstances. The variable rate must be tied to a nationally published rate. Variable rates cannot be adjusted more than quarterly.

### **Borrower Equity Requirements**

A minimum of ten (10) percent tangible balance sheet equity is required for existing businesses with full personal or corporate guarantees at the time the Loan Note Guarantee is issued. Twenty (20) percent tangible balance sheet equity is required for new businesses with full personal or corporate guarantees.

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

### **Maximum Repayment Terms**

- Working Capital 7 years
- Machinery and Equipment 15 years or useful life
- Real Estate 30 years

### **Fees and Costs**

There is a one-time guarantee fee not to exceed two (2) percent of the guaranteed principal amount and an annual renewal fee. The rate of the annual renewal fee is established in an annual notice published in the Federal Register. Fees are paid by the lender and may be passed on to the borrower. Other typical lender costs may also be incurred.

### **Feasibility Studies**

USDA Rural Development is an Equal Opportunity Lender, Provider and Employer. Complaints of discrimination should be sent to USDA, Director, OCR, Washington D.C. 20250-9410.



Committed to the future of rural communities

## **Business & Cooperative Programs**

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.

### **Appraisals**

An appraisal report prepared by an independent, qualified fee appraiser will be required on property that will serve as collateral. Appraisals will be made in accordance with the accepted format and standards of the industry.

### **Collateral**

All collateral must secure the entire loan. Repayment of the loan must be reasonably assured. Personal and corporate guarantees are usually required.

### **USDA Evaluation of Applications**

- Borrower eligibility
- Eligible loan purpose
- Reasonable assurance of repayment ability
- Sufficient collateral
- Sufficient equity
- Compliance with all applicable statutes and regulations

USDA - Rural Development will make a preliminary eligibility determination within ten (10) days upon receipt of a completed preapplication.

### **Preapplication**

A preapplication guide may be requested or a letter signed by the lender and borrower containing the following items will constitute a preapplication for determination of eligibility:

1. Lender's and borrower's name, address, phone number, IRS ID (or Social Security) number and contact name for each
2. Discussion that Small Business Administration assistance has been considered
3. Brief history and description of the project
4. Requested loan amount, proposed maturity and interest rate
5. Source of Funds - business injection, guaranteed loan, etc
6. Use of Funds - real estate, machinery and equipment, inventory
7. Number of full time jobs - existing, created, saved
8. Amount of business's tangible net worth
9. List of personal and/or corporate guarantees offered with financial statements
10. Proposed security for loan and its value
11. List of related businesses
12. Pending or final legal or regulatory actions against businesses



Committed to the future of rural communities

## Business & Cooperative Programs

13. Existing businesses -- current balance sheet and a profit and loss statement not more than 90 days old and financial statements for the borrower and any parent, affiliates and subsidiaries for at least the 3 most recent years.
14. All businesses -- current balance sheet not more than 90 days old, a pro forma balance sheet at start up, and projected balance sheets, income statements, and cash flow statement for the next 2 years. Projections should be supported by a list of assumptions showing the basis for the projections.
15. Business Plan
16. General information -- proprietorship, partnership, corporation; standard classification code (SIC) if known (purpose of business if not known); has business or any related businesses ceased operations within the previous 24 months; has business been audited by IRS within the past five years

### Forms

Standard lender documents will be utilized. USDA - Rural Development will have additional forms relating to the loan guarantee and other items to comply with Agency requirements.

### Servicing/Liquidation

Annual financial statements are required. Lender services and liquidates with USDA concurrence.

### FOR MORE INFORMATION

Contact the USDA - Rural Development State Office in Albuquerque at 505-761-4953 or one of our USDA-Rural Development Area Offices shown below. TDD for hearing impaired (505) 761-4938. The USDA-Rural Development website: [www.rurdev.usda.gov/nm](http://www.rurdev.usda.gov/nm)

**Aztec** 505-334-3090 x 4 (San Juan, Rio Arriba, and McKinley counties)

**Las Cruces** 575-522-8775 x 4 (Hidalgo, Grant, Luna, Sierra, Dona Ana, Otero, Lincoln, De Baca, Curry, Roosevelt, Chaves, Lea and Eddy counties)

**Las Vegas** 505-425-3594 x 4 (Taos, Colfax, Union, Mora, Harding, Quay, San Miguel, Guadalupe counties)

**Los Lunas** 505-865-4643 x 4 (Sandoval, Los Alamos, Santa Fe, Bernalillo, Torrance, Valencia, Cibola, Catron, Socorro counties)