



# Business & Industry Loan Guarantee

## What does this program do?

This program bolsters the existing private credit structure through the guaranteeing of loans for rural businesses, allowing private lenders to extend more credit than they would typically be able to.

## Who may apply for this program?

Lenders with legal authority, sufficient experience, and financial strength to operate a successful lending program like:

- Federal or State chartered banks
- Savings and loans
- Farm credit banks
- Credit unions

### What kind of borrower may the lender request a guarantee for?

- For-profit business
- Nonprofits and cooperatives
- Federally recognized Tribes
- Public bodies

### Are there restrictions on the borrower?

- Government or military employees may not own more than 20%
- Majority ownership must be held by US citizens or permanent residents

### What is an eligible area?

- Rural areas outside a city or town with a population of less than 50,000
- Urbanized areas near a city of 50,000+ may not be eligible
- The borrower's headquarters may be based within a larger city so long as the project service area is located in an eligible rural area
- The lender may be located anywhere

### Check eligible addresses for Business Programs

### How may funds be used?

Eligible uses include but are not limited to:

- 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
- Debt refinancing when new jobs will be created and other conditions are met
- Business and industrial acquisitions when the loan will keep the business from closing and/or save or create jobs

Guaranteed loan funds MAY NOT be used for:

- Lines of credit
- Owner-occupied and rental housing
- Golf courses
- Racetracks or gambling facilities
- Churches or church-controlled organizations
- Fraternal organizations
- Lending, investment and insurance companies
- Projects involving more than \$1 million and the relocation of 50 or more jobs
- Production agriculture, with certain exceptions



# Business & Industry Loan Guarantee

## What collateral is required?

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. Hazard insurance is required on collateral (equal to the loan amount or depreciated replacement value, whichever is less).

## What is the maximum amount of a loan guarantee?

- 80% for loans of \$5 million or less
- 70% for loans between \$5 and \$10 million
- 60% for loans exceeding \$10 million, up to \$25 million maximum

## What are the loan terms?

- Maximum term on real estate is 30 years
- Maximum term on machinery and equipment is useful life or 15 years, whichever is less
- Maximum term on working capital not to exceed 7 years
- Balloon payments are not permitted
- Reduced payments may be scheduled in the first 3 years

## What are the interest rates?

- Interest rates are negotiated between the lender and borrower, subject to Agency review
- Rates may be fixed or variable
- Variable interest rates may not be adjusted more often than quarterly

## What are the applicable fees?

- There is an initial guarantee fee equal to 3% of the guaranteed amount
- There is an annual renewal fee, currently 0.5% of outstanding principal
- Reasonable and customary fees are negotiated between the borrower and lender

## What are the 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
- At loan closing/project completion, the business must have tangible balance sheet equity position of:
  - 10 percent or more for existing businesses, or
  - 20 percent or more for new businesses.
- Key person life insurance may be required and the amount negotiated. A decreasing term life insurance is acceptable
- Personal and corporate guarantees are normally required from all proprietors, partners (except limited partners), and major shareholders (i.e., all those with a 20 percent or greater interest)



## Business & Industry Loan Guarantee

### How do we get started?

- Applications are accepted from lenders through our **local offices** year round
- Interested borrowers should inquire about the program with their lender
- Lenders interested in participating in this program should contact the USDA Rural Development Business Programs Director in the **state** where the project is located

### Who can answer questions?

Contact our **local office** that serves your area.

### What governs this program?

- **Basic Program:** Code of Federal Regulation, **7 CFR 4279-A&B**
- **Loan Servicing:** Code of Federal Regulation, **7 CFR 4287-B**
- This program is authorized by the Consolidated Farm and Rural Development Act (ConAct)

### Why does USDA Rural Development do this?

This program improves the economic health of rural communities by increasing access to business capital through loan guarantees that enable commercial lenders to provide more affordable financing for businesses in eligible rural areas.