



Committed to the future of rural communities

BUSINESS AND INDUSTRY LOAN GUARANTEE PROGRAM

Overview

The Business and Industry Loan Guarantee Program is administered by the Rural Business and Cooperative Program Division of the USDA Rural Development. We guarantee loans made by eligible lenders to support businesses and projects which benefit rural areas.

Need for the 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 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
- Helps meet CRA goals
- 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 Area

The entire State of Alaska is eligible except for the Municipality of Anchorage.

Eligible Borrowers

Any legal entity, including individuals, cooperatives, 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. Non-profit organizations are eligible.

Ineligible Borrowers

Corporations and businesses not at least 51% owned and controlled by U.S. citizens; and charitable institutions, churches, organizations affiliated with or sponsored by a church, or fraternal organizations.

Eligible loan purposes

- Purchase and development of land, buildings, and associated infrastructure for commercial or industrial properties, including expansion or modernization
- Business acquisitions provided jobs will be created or saved
- Leasehold improvements under certain conditions
- Construction or equipping facilities for lease to private businesses engaged in commercial or industrial operations. Mixed-use properties eligible with some restrictions.
- Purchase of machinery and equipment
- Startup costs, working capital, inventory, and supplies in the form of a permanent working capital term loan
- Debt refinancing when determined project is viable and refinancing is necessary to improve cash flow and create or save existing jobs. Existing lender debt to be refinanced may not exceed 50% of overall new loan amount
- Take out of interim financing with USDA prior approval
- Tourist and recreational facilities, including hotels and motels
- Energy projects not eligible for USDA Rural Energy for America Program
- Pollution control and abatement
- Projects that produce, distribute, aggregate, store, and/or market locally or regionally produced agricultural food products
- Employee Stock Ownership Plans (ESOPS)

Ineligible loan purposes

- Distribution or payment to individual or entity that will retain an ownership interest in the borrower
- Residential housing, residential trailer parks, and housing development sites
- Owner occupied housing, such as B&B's, lodges, hotels, are only allowed when pro-rata value of owner's living quarters, based on square footage, are deducted from use of loan proceeds.
- Businesses that derive more than 10% of annual gross revenues from gambling
- Charitable or fraternal organizations. Businesses that derive more than 10% of annual gross revenues from tax deductible charitable donations
- Lending institutions, investment institutions, or insurance companies
- Guarantee of lease payments or any lines of credit
- Other: Illegal business activities, racetracks, golf courses, and cemeteries

Maximum loan amounts

Business and Industry loans are limited to a maximum of \$25 million per borrower.

Loan Guarantee Limits (maximum percentage applies to the entire loan)

- 80% up to \$5 million
- 70% between \$5 - \$10 million
- 60% over \$10 million with RBS Administrator exception
- 90% on loans to businesses located in high cost, isolated, off the road system area in Alaska

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 should generally match other loans in the lender's portfolio and are typically:

- 70-80% Real estate
- 50-60% Accounts receivable
- 50-60% Inventory
- 50-70% 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. Default interest rates not allowed. Reasonable prepayment penalties are permitted.

Borrower Equity Requirements

A minimum of 10 percent tangible balance sheet equity (at the time the Loan Note Guarantee is requested) is required for existing businesses. A 20 percent tangible balance sheet is required for new businesses. Tangible balance sheet equity will be measured using financial statements prepared in accordance with generally accepted accounting principles (GAAP). Rural Development may require higher levels of equity in certain cases based in its' analysis of the loan

Maximum Repayment Terms (must be fully amortizing)

- Working capital 7 years
- Machinery and Equipment 15 years or useful life, whichever is less.
- Real estate 30 years

For mixed –use loans the term must be sufficient so that the working capital portion amortizes within 7 years, M&E within 15 years, and RE within 30 years; it isn't necessary to use separate notes /terms.

Fees and Costs

There is a one-time guarantee fee not to exceed 3 percent of the guaranteed principal amount (1 percent fee for guarantees eligible for 90 percent guarantee) and an annual renewal fee. The rate of annual renewal fee is established in an annual notice published in the Federal Register. Annual renewal fee in FY17 is .50%. Annual renewal fees are paid by the lender and may be passed on to the borrower. Other typical lender costs may also be incurred.

Feasibility Studies

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 borrowers operations.

Appraisals

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

Collateral

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

USDA Evaluations of Applications

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

Forms

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

Servicing /Liquidation

Annual lender analysis with borrower/guarantor financial statements is required. Lender services and liquidates with Rural Development concurrence

Reference Links

Business and Industry Loan Guarantee resource and training materials

<http://www.rd.usda.gov/programs-services/business-industry-loan-guarantees>

Regulations that guide our Business and Industry Loan Guarantee Program:

<http://www.rd.usda.gov/files/4279a.pdf> - General Guaranteed Loan making

<http://www.rd.usda.gov/files/4279b.pdf> - Business and Industry Loan Guarantees

<http://www.rd.usda.gov/files/4287b.pdf> - Servicing B&I Loan Guarantees

For More information <http://www.rd.usda.gov/ak>

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To file a complaint of discrimination write USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W.,
Washington, DC 20250-9410 or call (800)795-3272 (voice) or (202) 720-6382 (TDD).