

Business & Industry Guaranteed Loan Program

What does this program do?

This program bolsters the availability of private credit by guaranteeing loans for rural businesses.

Who may apply for this program?

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

This includes:

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

What kind of businesses qualify for loan guarantees?

- For-profit business
- Nonprofits
- Cooperatives
- Federally recognized Tribes
- Public bodies
- Individuals

What is an eligible area?

- Any area other than a city or town with a population of greater than 50,000 inhabitants and the urbanized area of that city or town
- The borrower's headquarters may be based within a larger city as long as the project is located in an eligible rural area
- The lender may be located anywhere
- Projects may be funded in rural and urban areas under the Local and Regional Food System Initiative

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 refinancing improves cash flow and creates or saves jobs
- Business and industrial acquisitions when the loan will create or save jobs

Guaranteed loan funds MAY NOT be used for:

- Lines of credit
- Owner-occupied housing
- Golf courses
- Racetracks or gambling facilities
- Churches, church-controlled organizations or charitable organizations
- Fraternal organizations
- Agricultural production, with certain exceptions

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).

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Maximum Advance Rates

- Real Estate: 80% of fair market value
- Equipment: 70% of fair market value
- Inventory: 60% of book value (raw inventory and finished goods only)
- Accounts Receivable: 60% of book value (less than 90 days)

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 machinery and equipment is its useful life or 15 years, whichever is less
- Maximum term for real estate is 30 years
- Maximum term on working capital not to exceed 7 years
- Loans must be fully amortized; balloon payments are not permitted
- Interest-only 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 that is paid at the time the Loan Note Guarantee is issued
- There is an annual renewal fee on the outstanding balance of the guaranteed portion of the loan that is set by Rural Development at a rate published annually in the Federal Register
- 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
- 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)

How do we get started?

- Applications are accepted from lenders through our local RD 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 your local RD office.

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

NOTE: Because citations and other information may be subject to change, please always consult the program instructions listed in the section above titled “What Governs This Program?” You may also contact your local office for assistance. You will find additional forms, resources, and program information at rd.usda.gov. USDA is an equal opportunity provider, employer, and lender.

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