



BUSINESS AND INDUSTRY (B&I) LOAN GUARANTEE

GOAL of the BUSINESS AND INDUSTRY (B&I) LOAN GUARANTEE PROGRAM: To encourage the commercial financing of businesses located in rural communities with an emphasis on creating jobs, saving jobs, and improving the economic and environmental climate of rural communities. The B&I Program, is Lender-driven. RBS guarantees the loan rather than lending directly. A commercial Lender requests the B&I guarantee, and makes and services the entire loan.

Loan Guarantee Limits: **80%** on \$5 million or less, **70%** on \$5 to \$10 million, and **60%** on \$10 to \$25 million. Guarantees on loans over \$10 million require an administrative exception and submittal to our National Office, in the form of a pre-application, prior to encouraging a complete application.

Lender Benefits:

The guaranteed portion of the loan reduces Lender risk.

The guaranteed portion of the loan can be sold on the secondary market.

The guaranteed portion of the loan does not count against lending limits or loan loss reserves.

B&I guarantee help Lenders satisfy Community Reinvestment Act (CRA) requirements.

The guarantee enables the Lender to be more competitive, offering better interest rates and terms.

Size of Loans:

No minimum (but should be sufficient to justify the loan documentation required)

Interest Rate, Terms, Payment Structure, and Fees:

Interest Rate: Lenders customary commercial interest rate is negotiated by Lender and the business. Can be fixed or variable, though it must not vary more frequently than quarterly and it must be tied to a published rate.

Repayment Term:

- Working Capital – 7 years maximum
- Equipment – 15 years maximum
- Real Estate – 30 years maximum

Structure: One loan can combine multiple purposes with the repayment schedule proportionately. Partial deferrals may be allowed the first 3 years, for reduced payments if necessary. Balloon payments at maturity are not acceptable.

Fees: Lender's reasonable and customary fees – negotiated by lender and business (may be included in the loan)

Guarantee fee: Generally 2% X the percent of guarantee X the loan amount, paid after loan closing (may be included in loan) (there is a .25% annual surcharge on the remaining guaranteed portion of the principle)

Tangible Net Worth Requirement: The business must have a **TANGIBLE BALANCE SHEET NET**

WORTH (using GAAP book value; tangible net worth-total assets) pro forma at loan closing, of at least 20%, for new businesses; 35% for bio energy projects; 10% for existing businesses.

Authorized Loan Purposes: (most any legal purposes are eligible for the guarantee) Business asset Acquisition, Construction, Modernization, Equipment, Real Estate Development, Inventory, Loan Fees, Feasibility Study, Tenant or Owner Occupied Buildings, Reasonable, Professional Services, Term Working Capital (but no revolving lines of credit), and Debt Refinancing in qualified cases.

Ineligible uses include: Gaming (10%+ of gross), Golf Courses, Lending investment, and insurance companies. Projects, involving more than \$1 million *causing* the relocation of 50 or more jobs. Guaranteed loan proceeds to owners or close relatives when the owners will retain any ownership.

Program Limitations:

- Loan funds should not be advanced until RBS has given approval.
- Buildings for lease projects must have enough committed tenants to evidence positive cash flow.
- Refinancing is limited to viable businesses needing cash flow improvement; employment opportunities are crucial justification. Same lender debt is limited to 50% of the guaranteed loan and must be current for last 12 months.
- Acquisition of an existing business is eligible if it will keep the business from closing, save or create additional jobs.
- Loan funds for production agriculture are limited to \$1 million and 50% of the loan and are only eligible when integrated with a business or industry involved in the processing and marketing of value-added products.
- Funds can not be disbursed to an individual (or close relative) that will retain any ownership in the Borrower.

Lender Eligibility: (*most Lenders are eligible*) Must be subject to government credit examinations and in good standing. Lender's officers/directors/principal stockholders should have no substantial financial interest in the borrower.

Borrower Eligibility:

Most types of enterprises qualify – manufacturing, wholesale, retail, service, business space for lease...

Sole proprietorships, partnerships, corporations, nonprofits, tribes, or public entities are acceptable.

Project must be in a rural area – outside the immediate urbanizing area of a city with a population of 50,000 or more.

Majority ownership by US citizens or permanent legal residents. Good credit history.

Less than 20 percent ownership by government or military employees or Lender stockholder.

Security Requirements:

The proposed operation must have realistic repayment ability.

There must be adequate collateral to protect the Lender and USDA

Personal and/or corporate guarantees for principal owners with 20% or more ownership are expected.

Insurance:

Hazard insurance on collateral (*lesser* of loan amount *or* depreciated replacement value)

Life insurance (decreasing term OK) generally on principals/key employees

Other Requirements:

- A Business Plan may be sufficient for an existing business, or a Feasibility Study by an independent consultant is required on new, start-up businesses or projects resulting in a substantial change of the existing business.
- CPA-prepared, annual financial statements in accordance with GAAP may be adequate; audited statements are generally required for loans over \$3 million and when other circumstances warrant.
- Agency ENVIRONMENTAL REVIEW may be needed on new construction and major site changes.

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PRE-APPLICATION LETTER

Pre-application Process

Lender and business submit a joint pre-application letter and attachments, indicating a willingness to make the loan, provided a B&I guarantee is approved.

RBS will visit business site with all parties; RBS then makes a preliminary determination of project eligibility -- normally within 15 days. Lender and business owners complete their guarantee application. Approval of guarantee should take less than 60 days upon delivery of complete application to RBS. RBS issues a conditional commitment to the Lender, approving the guarantee subject to conditions. After meeting RBS conditions, the Lender may close the loan and request the final guarantee. RBS issues the guarantee after verifying all conditions are met and collecting the guarantee fee.

The following is a guide outlining the items for a pre-application. Business owners and Lenders are encouraged (although not required) to file a pre-application and obtain Agency comments before completing a full application. Lenders should only pursue financially sound businesses that would be an asset to the community with long-term sustainable jobs and projects that are environmentally responsible.

Completed Jointly by the Lender and Applicant:

1. A letter signed by the Borrower and Lender containing the following:
 - The Lender* – name, address, phone, Fax #, contact person, tax ID number
 - The Applicant* – name, address, phone, contact person, organization type, tax ID number
 - The Business* – product or service, date established, organization, ownership
 - It's Financial Position* – assets, net worth, and delinquent debt
 - The Project* – brief description including total cost, sources and used of funds
 - Employment Impact* – # of full-time job equivalents before and after project; average hourly wage
 - The loan* – amount, proposed interest rate and term, fees, percent of guarantee requested
 - Collateral* – proposed collateral, lien position, estimated security value (*appraisal reports later*)
 - Legal or Regulatory Concerns* – Disclose any pending adverse actions against the applicant or its affiliates, officers, or principals; or indicate there are none

If a corporate borrower, names and addresses of the borrower's parent, affiliates, subsidiary firms and a description of the relationship and percent ownership

The letter must indicate the Lender's willingness to consider financing the proposal. Preliminary observations and comments about loan repayment and other strengths and weaknesses will be helpful.
2. A current balance sheet and income statement (not more than 90 days old) for the Applicant and financial statements for the past 3 years for an existing Applicant and any parent, affiliates and subsidiaries. (NOTE: *Assets should be valued at book value less accumulated depreciation*).
3. For start-up businesses, a preliminary business plan is requested.
4. Submit environmental information as early as possible. Details may be discussed during a visit.

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FORMAL COMPLETE APPLICATION

Plus any additional information required by the Agency

THE APPLICATION PROCESS:

A formal application for a B&I guarantee is to be completed by both the business owner and the Lender, with the Lender coordinating these efforts.

Form 4279-1, “Application for Loan Guarantee” Part A and Part B completed and signed by Applicant and Lender. *In Part-A item 20 identify outside net worth of principals and other guarantors. In Part-B item 10, identify all fees and make sure these and all costs are addressed in item 15. In item 14 make sure estimated values are included if the collateral has not yet been appraised; and in item 17 show tangible balance sheet net worth projected for the project after loan closing including the project completed, less soft costs and including respective debts.*

- 1(a) **SUPPLEMENT TO APPLICATION** *certification (that no delinquent debt is owing to a Federal agency)*
2. Form 1940-20, “Request for Environmental Information” and related information.
3. Financial Statements – a) A current (not more than 90 days old) balance sheet, b) A pro forma balance sheet at startup, c) Two years projected balance sheets, income and expense statements, and d) cash flow statements. All projections should be supported by a list of assumptions.
4. Current personal (not more than 60 days old) and corporate (not more than 90 days old) financial statements on guarantors. Last three years, financial statements for all parent companies, subsidiaries, or affiliates. (Note: personal and corporate guarantees for those owning greater than 20 percent of the borrower will be required where legally permissible.)
5. The Lender’s credit analysis of the proposed loan. This analysis should include the following: spreadsheets of the balance sheets and income statement for three years historical, pro forma balance sheet at startup (closing of the proposed Lender/RBS guaranteed loan) and two years projected year-end balance sheets and income statements with appropriate ratios and comparison with industrial RMA averages. All data must be shown in total dollars, and also in common size form by expressing balance sheet items as a percentage of assets, and income statement figures as a percentage of sales. The Lender’s credit analysis must determine debt service coverage and adequacy of collateral, address industry trend, borrower’s management, history of debt repayment, necessity for any debt refinancing, and the credit reports on the borrower, its principals, personal/corporate guarantors and any parent, affiliate or subsidiary.
6. Credit reports on the borrower, its principal owners, partners, officers, director, key employees, personal and/or corporate guarantors and any parent, affiliate or subsidiary firms.
7. Record of any pending or final regulatory or legal (civil or criminal) action against the parties.

8. A current appraisal of all property to be taken as security; this may be provided later. (*Real estate appraisals must comply with FIRREA and the Uniform Standards of Professional Appraisal Practices.*) This should include consideration of potential environmental liabilities upon the market value.
9. A draft of the Lender's proposed loan agreement with the applicant must be submitted. Loan Agreements must include, but are not limited to the following:
 - a. Prohibition against assuming the liabilities or obligations of others.
 - b. Restrictions on dividend payments.
 - c. Limitations on purchase or sale of equipment and fixed assets.
 - d. Limitations on compensation of officers and owners.
 - e. Minimum working capital requirements.
 - f. Maximum debt to net worth ratio.
 - g. Restrictions concerning consolidations, mergers, or other circumstances.
 - h. Limitations on selling the business without the concurrence of the Lender and RBS.
 - i. Repayment and amortization of the loan.
 - j. List of collateral and lien priority for the loan, including a list of persons and/or corporations guaranteeing the loan.
 - k. Type and frequency of submission of financial statements: *At a minimum, annual financial statements prepared by an accountant and in accordance with GAAP are required within 100 days of fiscal year end, including statements for corporate and personal guarantors. For loans in excess of \$3 million, annual audited financial statements by an independent certified public accountant are generally required.*
 - l. *The final loan agreement will contain any additional requirements imposed by the Agency for approval of the guaranteed and specified in its Conditional Commitment.*
 - m. *At this time include a provision for later insertion of any necessary measures to avoid or reduce adverse environmental impacts caused the project. Such measures will be determined by the Agency's environmental process and stipulated in the Conditional Commitment.*

FORMS:

You may access application forms from the website: <http://forms.sc.egov.usda.gov/FormSearch.asp>