

# USDA RURAL DEVELOPMENT

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## Business & Industry Guaranteed Loan Program

Traci Smith  
Business Programs Director

# RURAL AREA

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- Business must be located in a rural area
- Population of 50,000 or less
- Web site to determine eligibility:

<http://eligibility.sc.egov.usda.gov>

# ELIGIBLE BORROWERS

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- Cooperative, Corporation, Partnership, Individual, Tribal Group or Public Body
- 51% owned by persons who are either U.S. Citizens or have been legally admitted for permanent residence

# INELIGIBLE BORROWERS

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- Churches, Charitable or Fraternal Organizations
- Lending, Investing or Insurance Companies

# ELIGIBLE LOAN PURPOSES

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- Existing or Start-up Businesses
- Real Estate and Buildings
- Machinery & Equipment
- Term Working Capital
- Refinancing (max. 49% existing exposure)
- Nearly any business venture with a few exceptions



# INELIGIBLE LOAN PURPOSES

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- Agricultural Production
- Golf Courses
- Gambling
- Racetracks
- Housing
- Equity Distributions to Existing Owners  
(if maintaining any ownership)
- Line of Credit Loans
- Loans with Balloon Payments

# RATES & TERMS

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- Real Estate 30 years
  - Building or Construction 30 years
  - Machinery & Equipment 15 years
  - Working Capital 7 years
  - Debt Refinancing 30 years
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- Interest Rate is Negotiated between Business & Lender – (*can be Fixed or Variable, adjusting not more than quarterly*)

# PERCENTAGE OF GUARANTEE & FEES

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- To \$5 Million.....up to 80%
- \$5 - \$10 Million.....up to 70%
- Over \$10 Million.....up to 60%
  
- Fee is 2% of Guarantee Amount  
( $\$500,000 \times 80\% \times 2\% = \$8,000$ )  
plus annual recurring fee – currently 1/4 %

# Special ARRA Enhancements

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## All submissions for ARRA Funds:

- Guarantee Fee is reduced from 2% to **1%**
- Annual Renewal Fee is **ELIMINATED!**

## Provided 3 additional criteria are met:

- Opportunity for a **90% Guarantee** on loans up to \$10 million.

# Criteria for 90% GUARANTEE

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- Quality Jobs
  - 125% of federal minimum wage or \$9.07/hr.
- Distressed Community
  - High Unemployment OR
  - Underserved Area or Underrepresented Group
- Application must score 35 points

**To be eligible to receive a 90% guarantee.**

# INELIGIBLE ARRA PROJECTS

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- Aquariums, museums, zoos
- Convenience Stores (unless the store provides “Quality Jobs” or sells or will sell E85 fuel upon completion of the project.)
- Hotels, motels, or other facilities with pools or water parks
- Golf courses, casinos, and other gambling establishments (which are ineligible under regular B&I as well)



# OTHER ARRA

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- Davis Bacon Laws – Construction Projects Only

# CREDIT REQUIREMENTS

## COLLATERAL

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- 1 to 1 coverage on a discounted basis
- Any reasonable, sound loan-to-value discount policy (consistent with non-guarantee loans)

*Generally:*

Real Estate/Buildings	75% of mkt value
M&E	60% of mkt value
AR & Inventory	60% of book value

**Required:** Limited, Personal Guarantees of anyone with 20% or more ownership in the business

# CREDIT REQUIREMENTS

## EQUITY

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- Existing Business 10%
- New Business/New Ownership 20%
  
- Tangible Balance Sheet Equity, as a % of Total Assets, on a Book Basis, according to GAAP  
*Must remove intangibles, subordinated debt and appraisal surplus from both assets and equity*



# CREDIT REQUIREMENTS (OTHER)

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- Adequate Cash Flow & Debt Service Ability
- Management Ability
- Acceptable Personal & Business Credit History

# LOAN PROCESS

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- Pre-application

- Lender's Credit Analysis

- Make sure it includes source & use of funds and a post closing pro-forma balance sheet*

- Financial Statements

- (5 to 10 Business Days)

- Can call anytime to get our feel of the proposal before submitting any information.

# APPLICATION

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- Field Visit
  - Application for Guarantee (*see packet*)
  - Business Plan or Feasibility Study (*see packet*)
  - Credit Reports
  - Proposed Business Loan Agreement
  - Environmental Assessment/SHPO
  - Appraisal
- (5 – 15 Business Days)

# LOAN PROCESS

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Agency Credit Committee Approval

Conditional Commitment is Issued

After Loan is Closed, submit Closing Docs.,  
Appraisal, Balance Sheet & Check for Fee

Loan Note Guarantee is Issued After the Project  
is Complete

# PARTICIPATION OR SALE OF GUARANTEE

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- Lender may sell 100% of the Guaranteed Portion of the Note
- Lender may sell some of the unguaranteed portion of the Note
- Lender is required to hold in its own portfolio a minimum of 5 percent of the total loan amount.

# LOAN SERVICING REQUIREMENTS

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- Annual Financial Statements (GAAP)
- Annual Lender Analysis
- Annual Field Visit
  
- Liquidation is performed by lender with agency approval
- After applying sale proceeds, guarantee covers up to 90% of loss lender would have otherwise incurred.

















## Business Programs

Business and Industry Guaranteed Loans  
Rural Energy for America Program Grants & Loans  
Rural Business Enterprise Grants  
Value Added Producer Grants  
Renewable Energy Program Loans & Grants  
Intermediary Re-lending Program Loans  
Rural Economic Development Loans and Grants  
Cooperative Development Assistance

# USDA – Rural Development

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