USDA Business & Industry Guaranteed Loan Program

Background. The USDA administers the Business and Industry (B&I) Guaranteed Loan Program to help establish, expand, or modernize rural businesses. The B&I Guaranteed Loan Program guarantees loans for businesses to pursue activities that will:

- provide employment;
- improve the economic or environmental climate;
- promote the conservation, development, and use of water for aquaculture; or
- reduce reliance on nonrenewable energy resources by encouraging the development and construction of solar energy systems and other renewable energy systems (including wind energy systems, geothermal energy systems, and anaerobic digesters for the purpose of energy generation).

It is a general purpose economic development program, but if employed creatively, it can be used to support demonstration-scale projects for innovative energy technology. The level of flexibility in the B&I Guaranteed Loan Program varies by state, so it is important to begin a dialogue at the state and/or federal level, as applicable, early in the process. Funding in the B&I program focuses on supporting high-priority areas of the administration, which includes the deployment of clean and renewable energy. Senior leadership within the USDA, particularly Secretary Tom Vilsack, has provided tremendous support for energy initiatives across the agency, and state-level programs are a key aspect in executing and fulfilling these broader objectives.

Loan Guarantee Amounts. Loans eligible for a guarantee can range in size up to $25 million. Loans up to $40 million can be guaranteed if the borrower is a cooperative organization, as defined below. As an example of the flexibility in the program, it is occasionally possible to combine multiple loans from the B&I program, or to combine B&I and Rural Energy for America Program (REAP) loans, for a total of up to $65 million. The percentage of the loan that is guaranteed varies depending upon the size of the loan, as follows:

- 80 percent guarantee of loan amounts up to and including $5 million
- 70 percent guarantee of loan amounts greater than $5 million, up to and including $10 million
- 60 percent guarantee of loan amounts greater than $10 million

The 2008 Farm Bill also provides for 90 percent guarantees for high-priority projects under $10 million; however, the USDA exercises that authority infrequently.

Designated Lender Program. The B&I Program requires the participation of an eligible lender. Federal- or state-chartered banks, Farm Credit System institutions, savings and loan associations, credit unions, insurance companies, and the National Rural Utilities Cooperative Finance Corporation automatically are eligible lenders, while other types of lenders must pre-qualify with the USDA. The relevant eligible lender determines the loan's terms (within the program guidelines), disburses the funds, and must hold at least 5 percent of the unguaranteed portion for the life of the loan. The guaranteed portion of the loan can be resold in the secondary market, and interests in the remaining 95 percent of the unguaranteed portion can be shared through participations (with the designated lender retaining title to the notes but not the economic interest in them).

The guaranteed and unguaranteed portions of the loan are secured by the same collateral, with equal lien priority. The program contemplates that lenders and the USDA may consider providing loans that are junior to or on par with pre-existing loans if the collateral is sufficient for both the prior loan and the B&I guaranteed loans.

Eligible Projects. Eligible projects include:

- business and industrial acquisitions when the loan will keep the business from closing, prevent the loss of employment opportunities, or provide expanded job opportunities;
- 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; and
- financing of renewable energy-related projects.

Accordingly, projects that propose any of the above to provide employment, improve the economic or environmental climate, promote conservation, or reduce reliance on non-renewable energy resources are eligible. This can include previously piloted renewable energy projects in virtually any sector, including solar, biomass, biopower, and electric vehicles, among others. For most energy-related projects, the USDA will make eligibility determinations on a case-by-case basis. In particular, biomass power and biogas-to-energy projects must have completed two operating cycles, and projects that produce steam or electricity must be interconnected with the purchaser of the output and meet other program-specified criteria.

All eligible projects must be located in a rural area (with a population less than 50,000 and not in an urbanized area), and they must use a pre-commercial or commercially available, replicable, and feasible technology. While the project must be creditworthy and posses collateral sufficient to secure the loan, there is no owner-occupancy requirement as found in other USDA programs.

Guaranteed Loan Requirements. Guaranteed loans are required to be fully secured based on a sound loan-to-value policy, including a feasibility analysis in which stronger feasibility justifies relatively higher loan-to-value amounts. Designated lenders have the primary responsibility of determining that the loan

is fully secured. Overall, lenders can be expected to judge the size of loan they are willing to make based both on the value of assets pledged as collateral and the expected cash flow from the project that will support repayment. The program also states that managerial ability can be taken into account to overcome collateral deficiency.
In addition, to qualify for a loan guarantee, the borrower must show that the project has tangible balance sheet equity of at least 10 percent for loans to existing businesses, 20 percent for start-ups, and 25-40 percent for energy projects. Rather than requiring cash equity (as the REAP guaranteed loan program requires), the B&I program's equity requirements are measured based on tangible balance sheet equity as determined by financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP).

Eligible Project Costs. All eligible project costs must be an integral and necessary part of the total project. The following is a list of those eligible uses:

- Businesses and industrial acquisitions
- Purchase of land, machinery, and equipment
- Construction, enlargement, or modernization
- Eligible fees and costs
- Educational or training facilities
- Tourist facilities
- Pollution control or abatement
- Working capital
- Refinancing when necessary to improve cash flow and create new or save existing jobs

Eligible Borrowers. Cooperative organizations, corporations, partnerships, and other for-profit and non-profit organizations are eligible. Indian tribes and other federally recognized tribal groups, public bodies, or individual persons also are eligible. A cooperative organization is defined as a non-chartered entity that operates as a cooperative, being owned and operated for the benefit of its members and distributing dividends and assets to them. Individual borrowers must be U.S. citizens, and corporations must be at least 51 percent owned by U.S. citizens or permanent residents of the U.S.

Other Key Terms and Conditions. The length of a guaranteed loan may be up to 30 years for real estate, 15 years for equipment (or the length of its useful life, if shorter), and seven years for working capital. The interest rate of the guaranteed loan may be fixed or variable, and is negotiated between the lender and the borrower.

Interest must be paid at least annually, and principal payments may be deferred until the project is operational. Lenders are required to pay a one-time guarantee fee of 3 percent for loans made in and after 2011, and an annual servicing fee of 0.25 percent for as long as the guaranteed loan is outstanding and payable. Such fees may be passed on to the borrower.

Application and Approval Process. Application materials are prepared by borrowers, in coordination with the eligible lenders, and are submitted by eligible lenders to the USDA State Rural Development Office where the project is located. All applications must provide a business plan, costs estimates and forecasts of contingency funds to cover expected and unexpected project costs, financial statements for the project and applicant, and, in some instances, a technical report and independent feasibility study. Personal guarantees are generally required from all proprietors, partners, and major shareholders (i.e., those with a 20 percent or more interest in the applicant), but exceptions may be granted in some instances. Demonstrated financial need and inability to get credit elsewhere is NOT a requirement.

Any project receiving federal funds is subject to the environmental requirements of the National Environmental Policy Act (NEPA). The USDA will perform the NEPA review, but applicants will need to provide environmental information about their project. The USDA may contact the applicant after preliminary review if more information is needed. Due to the time-intensive nature of this process, borrowers should initiate the environmental review process as early as possible.

Applications are generally approved if they meet the program requirements. Applicants meeting the criteria outlined above in a way that is sufficient to provide a reasonable assurance of repayment are likely to be awarded loan guarantees. In instances where the program cannot award loans to all eligible applicants, priorities will be assigned to applicants based on a point system. Points are allocated based upon the location of the project, the business type, community support, jobs created, and other factors.

Fiscal Year 2011 Funding: The FY2011 budget provided $44.9 million to support approximately $900 million in B&I guaranteed loans—roughly the same as the 2010 level.

Fiscal Year 2012 Funding. The president requested $53 million in FY2012 to support approximately $823 million in loans. The House Appropriations Committee markup provides approximately $40 million in FY2012 to support $600 million in B&I guaranteed loans. This represents a decrease of approximately $5 million from FY2011, and $13 million less than the president's request. Funding is available on a rolling basis, but applicants are encouraged to begin the application process early.

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