

UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL BUSINESS-COOPERATIVE SERVICE (RBS)
OREGON
Fact Sheet

Business and Industry (B&I) Loan Guarantees

The RBS program provides a loan guarantee to a bank, savings and loan, or other approved lender to finance private businesses located in rural areas of 50,000 population or less. Business loan guarantee purposes include, among others items, construction, acquisition, working capital, equipment purchase, start up costs and expansion costs. Applicants for these loans may be any legal entity, including individuals, public and private organizations and federally recognized Indian tribal groups.

Program Goal

To encourage the commercial financing of rural business, thereby:

- * Creating and saving rural jobs.
 - * 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, if approved, it makes (and services) the loan.*

Type of Assistance

Federal guarantees (typically of 80 percent or less) for lenders on their rural business loans:

- 80 percent (maximum) guarantee on loans of up to \$5 million.
- 70 percent (maximum) guarantee on loans of \$5- 10 million.
- 60 percent (maximum) guarantee on loans of \$1 0-25 million.
- *Limited/Special Circumstances .90 percent (maximum) guarantee on loans of up to \$2 million.*

Lender Benefits

The guaranteed portion of the loan is protected against loss by a Federal guarantee.
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.
B&I guarantees help lenders satisfy Community Reinvestment Act (CRA) requirements.

Size of Loans

No minimum, but typically beginning at SBA maximum (\$750,000).
Maximum loan is \$25 million

Interest Rate, Term, Payment Structure, and Fees

Rate: Lender's customary commercial interest rate - negotiated by lender & business.
Fixed or variable (but not more often than quarterly) tied to a published base rate.

Term: Working Capital - 7 years maximum.
Equipment - 15 years maximum.
Real Estate - 30 years maximum.

Structure: Balloons are not permitted. Reduced payments may be scheduled in the first 3 years.

Fees: Lender's reasonable and customary fees - negotiated by lender & business.

Authorized Loan Purposes

Business asset acquisition, construction, repair, modernization, and development.
Real estate, buildings, equipment, inventory, supplies, & working capital (NO lines of credit).
Loan fees & costs, packaging fees, professional services, and feasibility study costs.
Debt refinancing in certain cases.

Loan Limitations

Construction projects - Construction loan funds should not be advanced until RBS has approved the project.

Commercial lease projects - Need not be owner-occupied, but must have enough committed tenants to evidence positive cash flow.

Ineligible businesses include:

Production agriculture (except when linked to agricultural processing & marketing businesses).

(Note: Nursery, forestry, and aquaculture operations are eligible.)

Gaming facilities - Golf Courses - Lending, investment, and insurance companies.

Projects involving more than \$1 million *and* the relocation of 50 or more jobs.

Lender Eligibility

Any Federal or State chartered bank; Farm Credit System; Bank of Cooperatives; bank-holding company's mortgage company; credit union; or insurance company.

Lender must be subject to government credit examinations and in good standing.

Lender's officers/directors/owners have no substantial financial interest in the borrower.

Borrower Eligibility

Most types of enterprises qualify - manufacturing, wholesale, retail, service.

Project must be in a rural area - outside the immediate influence of a 50,000 + population city.

Proprietorships, partnerships, corporations, nonprofits, tribes, or political subdivisions.

Majority ownership by US citizens or permanent residents.

Less than 20 percent ownership by government or military employees.

Good Credit history.

Must have tangible balance sheet equity at loan closing/project completion of:

10-20 percent or more (for existing businesses).

20-25 percent or more (for new and energy-related businesses). Inability to get credit elsewhere is NOT a requirement.

Security Requirements

The proposed operation must have realistic repayment ability.

There must be adequate collateral to protect the Lender and RBS. Lender should discount collateral consistent with sound loan to value ratios. Typical discount factors are:

Real-estate - using 80 percent or less of the appraised value.

Chattels - using 80 percent or less of the appraised value.

Accounts receivable (<90 days) - using 60 percent or less of value.

Inventory - using 60 percent or less of the value.

Insurance:

Hazard insurance on collateral (*lesser* of loan amount *or* depreciated replacement value). Life insurance (decreasing term OK) on principals/key employees - amount negotiated.

Personal/corporate guarantees:

Typically from all proprietors, partners (except limited partners), or major (20 percent or more interest) shareholders.

Special Requirements

A feasibility study by a recognized, independent consultant may be required.

Annual audited financial statements are generally required for loans in excess of \$3 million and when other special circumstances warrant an audit.

A 2% fee on the guaranteed portion of the loan is paid to RBS at the time the guarantee is issued.

Application Process

- Lender & business submit a joint preapplication to RBS, indicating a willingness to make the loan provided a B&I guarantee is approved.
- RBS meets with all parties at the project site, and then makes a preliminary determination of project eligibility, normally within 15 days.
- Lender & business complete their application.
- From RBS receipt of complete application, approval takes less than 60 days.
Loans up to \$5 million are approved locally larger ones are reviewed in Washington, DC.
- RBS issues a conditional commitment, approving a guarantee subject to conditions.
- After meeting RBS's conditions, the lender may close the loan and request the guarantee.

- RBS issues the guarantee after verifying all conditions are met and collecting guarantee fee.

For More Information

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