

**USDA Rural Development  
Business & Industry (B&I)  
and  
Rural Energy for America (REAP)  
Loan Programs**

**Tuesday, November 1, 2016 @ 11:00 a.m.**

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at 888-796-6118*

*Thank you!*



**USDA Rural Development  
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and  
Rural Energy for America (REAP) Loan  
Programs**

**Presenter:**

**Jesse Gandee, Rural Business Specialist  
USDA – Morgantown**



# **USDA Rural Development Business & Industry (B&I) Guaranteed Loan Program**



# Business and Industry Guaranteed Loan Program Mission

- Create and maintain employment and improve the economic and environmental climate in rural communities
- Bolster the existing private credit structure through the guarantee of quality loans that will provide lasting community benefits



# Why Obtain a Loan Guarantee?

- Allows lender to lend beyond its legal lending limit
- Mitigates collateral & other perceived risk
- Secondary market yield
- Expand loan portfolio
- Fee income

# Eligibility

- **Lender** — Traditional Lenders, Credit Unions, Farm Credit, and Other
- **Borrower** — Any Legal Entity
- **Loan Purpose** — Real Estate, Equipment, Working Capital, Refinancing, and Ag. Processing
- **Location** — Rural Area

# Ineligible Borrowers/Purposes

- Charitable institutions
- Churches or church-controlled organizations
- Fraternal organizations
- Lending and investment institutions
- Businesses engaged in illegal activity
- Golf courses

# Ineligible Borrowers/Purposes, *cont.*

- Lines of credit
- Guarantee of loans made by other Federal agencies.
- Distribution or payment to an owner, beneficiary, or a close relative of the owner, when owner will remain an owner



# Fees and Percentage of Guarantee

- Fees
  - Initial Guarantee Fee – 3% in most cases
  - Annual Renewal Fee –  $\frac{1}{2}$  of 1% \**subject to change*
- Percent of Guarantee Maximums
  - \$5MM - \$10MM – 70%
  - $\leq$  \$5MM – 80%

# Loan Structure

- Negotiated by the lender and borrower
  - Rates can be Fixed/Variable/Combination, but cannot vary more often than quarterly
  - Origination fees and prepayment penalties are permitted
  - No balloon payments
- Maximum loan terms:
  - Real Estate 30 years, Equipment: the lesser of 15 years or useful life, Working Capital 7 years

# Eligible Application Doc.

- Unconditional personal and corporate guarantees
- Appraisal
- Feasibility study – start-ups
- Business plan – all entities
- Insurance
- Environmental Review



# Tangible Balance Sheet Equity

- Financial statements must be prepared in accordance with GAAP (may be “In-house” financials)
- Minimum of 10 percent required for existing businesses
- Minimum of 20 percent required for new businesses
- Minimum of 25-40 percent required for energy projects, depending on certain criteria.

# Equity, continued

- Intangibles - goodwill, R&D, amortized loan costs, customer lists, etc. - must be removed

# Collateral

- Must be sound and sufficient to protect interests of the lender and Agency (normally discounted value will be at least equal to the loan amount)
- Must be appropriately discounted

# Discount Rates

- Real Estate – up to 80%
- Equipment – up to 70%
- Accounts Receivable – up to 60%
- Inventory – up to 60%
- If more generous discounting is used, lender must provide justification

# Application:

- Agency Reviews the Following
  - Borrower Eligibility
  - Loan Purpose Eligibility
  - Repayment Ability
  - Sufficient Collateral & Equity
  - Compliance with Statutes and Regulations



# Loan Approval

- Approval typically takes no more than 30-60 days
- Rural Development State Loan Committee meets to consider approving loan guarantee
- National Office Loan Committee approves loans above State's loan approval authority

# Conditional Commitment

- Establishes Agency loan requirements and conditions
- All conditions must be met before the Loan Note Guarantee is issued

# Loan Note Guarantee

- Loan Note Guarantee is issued at or immediately after loan closing
- Guarantee does not typically cover construction period, but can be considered on a case-by-case basis

# USDA Rural Development

- Business and Industry Guaranteed Loan Program
  - Process



# USDA Rural Development QUESTIONS?



USDA Rural Development  
Rural Energy for America  
(Section 9007)  
Guaranteed Loan Program



# Rural Energy for America Guaranteed Loan Program Purpose

- Creates opportunities for economic development for rural businesses by supporting/financing renewable energy and energy efficiency projects
- Expands the existing private credit structure by providing a credit enhancement via a loan guarantee.

# Eligible Borrowers

- **Ag Producers**
- **Small Business**





## §4280.103 Definitions

**Agricultural Producer** – An individual or entity directly engaged in the *production* of agricultural products, including crops (including farming); livestock (including ranching); forestry products; hydroponics; nursery stock; or aquaculture, whereby 50 percent or greater of their gross income is derived from those products.

*50% or more of gross income must come the products that are grown or raised.*



# §4280.103 Definitions

**Small Business** – An entity or utility, as applicable, described below that meets Small Business Administration’s (SBA) definition of Small Business as found in 13 CFR part 121.301(a) or (b). Non Profits are ineligible.

- 1) A private for-profit entity, including a sole proprietorship, partnership, and corporation;
- 2) A cooperative (including a cooperative qualified under section 501(c)(12) of the Internal Revenue code);
- 3) An electric utility (including a Tribal or governmental electric utility) that provides service to rural consumers and must operate independent of direct government control.



# Eligible Technologies

- Renewable Biomass, bioenergy
- Anaerobic digesters
- Geothermal (electric and direct)
- Hydroelectric (30 megawatts or less)
- Hydrogen
- Wind
- Solar
- Ocean (including tidal, wave, current, and thermal)
- Energy Efficiency

# Eligible Project Costs

- Post-application purchase and installation of equipment (new, refurbished, or remanufactured), except agricultural tillage equipment, used equipment, and vehicles
- Post-application construction or improvements
- Energy audits or assessments,

# Eligible Project Costs (con't)

- Permit and license fees
- Professional service fees, except for application preparation
- Feasibility studies and Technical Reports
- Business Plans and Retrofitting

# Eligible Project Costs (con't)

- Construction of a new energy efficient facility under certain circumstances
- Working capital
- Land acquisition

# Examples of Ineligible Purposes

- Improvement that will benefit residences
- Lines of credit
- Guarantee loans made by other Federal agencies
- Distribution or payment to an owner, beneficiary, or a close relative of the owner, when owner will remain an owner

# Fees and Percentage of Guarantee

- Fees
  - Guarantee Fee – 1 percent (maximum)
  - Annual Renewal Fee – 0.50 percent (maximum)
  - Current FY15 Fees:
    - 1 percent guarantee fee
    - 0.25 percent annual renewal fee
- Percent of Guarantee Maximums
  - Greater than \$10 million – 60 percent
  - \$5 million up to \$10 million – 70 percent
  - \$600K up to \$5 million – 80 percent
  - \$600K or less – 85 percent





# Guaranteed Loan Limits

- Minimum loan amount is \$5,000
- Maximum loan amount is \$25,000,000
- Loan amount cannot exceed 75 percent of the total eligible project costs



# Terms – First Installment

- Principal and interest will, if possible, be scheduled for payment after the project is operational and has begun to generate income

# Equity Requirement

- Cash Equity Injection
  - Loans greater than \$600K, require not less than **25 percent** of eligible project cost
  - Loans of \$600K or less, require not less than **15 percent** of eligible project cost
- Federal grant funds may be used to meet equity requirement

# Collateral

- Must be sound and sufficient to protect interests of the lender and Agency (normally discounted value will be at least equal to the loan amount)
- Must be appropriately discounted
- Cannot secure unguaranteed portion with additional collateral

# Feasibility Study

- Feasibility studies are required for renewable energy system projects submitted by a start-up or existing business
  - RE projects with total eligible project cost of \$200K or less are exempt from this requirement
- Study must be completed by a qualified independent consultant

# Technical Reports

- Required for all projects,
  - Scope and complexity based on eligible project cost and technology phase
- Commercially available and under \$200K
  - Simplified format
- Eligible project cost over \$200K
  - More complex



# USDA Rural Development

- REAP Guaranteed Loan Program
  - Process



# USDA Rural Development

REAP Guaranteed Loan Program

# QUESTIONS?





# Contact Information

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Or contact your local LRS – [www.sba.gov](http://www.sba.gov)

