USDA Rural Development
Business & Industry (B&I)
and
Rural Energy for America (REAP)
Loan Programs
Tuesday, November 1, 2016 @ 11:00 a.m.

For technical assistance call the AT&T Helpdesk at 888-796-6118

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

Presenter:
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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**
  - $5$MM - $10$MM – 70%
  - $\leq$ $5$MM – 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
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• Business and Industry Guaranteed Loan Program
  – Process
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QUESTIONS?
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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
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• REAP Guaranteed Loan Program
  – Process
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REAP Guaranteed Loan Program

QUESTIONS?
Contact Information

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