



May 22, 2020

Summary of 'Rural Loan Guarantees' Program

On Friday, May 22, 2020, U.S. Secretary of Agriculture Sonny Perdue [announced](#) that the Department is making available up to \$1 billion in loan guarantees to help rural businesses meet their working capital needs during the coronavirus pandemic.

The Rural Business Cooperative Service (RBCS) received funding and authority through the CARES Act to provide for additional funds for use under the Business & Industry (B&I) Guaranteed Loan Program. In accordance with the CARES Act, the purpose of the additional B&I funding is to prevent, prepare for and respond to the effects of the COVID-19 pandemic.

The current B&I Guaranteed Loan Program was authorized by the Rural Development Act of 1972. The loans are made by private lenders to rural businesses for the purpose of creating new businesses, expanding existing businesses, and for other purposes that create employment opportunities in rural America.

The USDA, in response to this new funding and recognizing the unique needs of rural businesses during these times, has modified the B&I Guaranteed Loan Program rules to create a **B&I CARES Act Loan Program**. These new [B&I Guaranteed Loan Program regulations](#) apply *only* to the loans funded under the CARES Act and do not apply to loans funded under the Appropriations Act of 2020 or any other appropriations other than the CARES Act.

The USDA focused on adjusting several requirements under the current B&I program which would enable lenders greater flexibility in

structuring loans while taking into consideration the borrowers' current financial condition and capacity, but also assuring that such adjustments can be made without compromising Agency underwriting standards.

What types of businesses can get a loan with the B&I CARES Act Loan Program?

The loans may be used only to support *rural* businesses that were in operation on Feb. 15, 2020. The eligibility requirements of the B&I Guaranteed Loan Program focus on the use of loan funds and not on the borrowers' primary industry classification, such as agricultural production. The program does not have any restriction on the size of business or business ownership structures.

The B&I program is available only to businesses located in rural areas as defined in the [B&I statute](#), with limited exceptions. Rural areas are "any area of a State other than a city or town that has a population of greater than 50,000 inhabitants and any urbanized area contiguous and adjacent to such a city or town."

Businesses with multiple locations, rural and nonrural, are eligible when the use of loan funds is to support business facilities and operations in eligible rural areas.

Loans for working capital to support **agricultural production**, including independent agricultural production, is an eligible use of funds when the applicant's loan request exceeds the maximum loan available through Farm Service Agency (FSA) guaranteed loan programs or the applicant's request is



otherwise ineligible for FSA loans.

Agribusinesses (non-agricultural production businesses such as supply services, marketing, processing, and other services) are eligible and include agribusinesses owned by agricultural producers.

To enable large agricultural producers and rural businesses of all industry sectors access to the program, the aggregate total amount of loans for agricultural production will initially be limited to 50 percent of the total amount of program level for the B&I CARES Act Loan Program. This restriction is intended to provide eligible rural businesses of all industry sectors the flexibility they need to use the program effectively.

How is this loan different from an FSA (Farm Service Agency) Loan?

The B&I CARES Act Loan Program will expand eligible use of loan funds to include loans to agricultural producers whose financial needs are greater than loan amounts available under FSA guaranteed loans or are otherwise ineligible for FSA guaranteed loans.

How are these loans different from the PPP and EIDL loans?

The Small Business Administration (SBA) Economic Injury Disaster Loans (EIDL) provide working capital to help small businesses survive until normal operations resume after a disaster. EIDL can provide up to \$2 million to help meet financial obligations and operating expenses that could have been met had the disaster not occurred. EIDL assistance is available only to small businesses when SBA determines they are unable to obtain credit elsewhere. Currently, access to the EIDL program is further limited and SBA is accepting new EIDL and EIDL Advance applications on a limited basis only to provide relief to U.S. agricultural businesses.

Although loan purposes under the B&I CARES Act Program may overlap with loan purposes of EIDL, *the B&I CARES Act Program will focus assistance to rural businesses that are ineligible to submit new EIDL applications* or that are too large or otherwise not eligible for EIDL or have financial needs due to the coronavirus pandemic greater than EIDL assistance.

Loan purposes under the B&I CARES Act Program may also overlap with some of the purposes of the SBA's Paycheck Protection Program (PPP), however the B&I CARES Act Program guaranteed loans will cover a broader range of typical business operating expenses and will not be focused on payroll costs. The B&I CARES Act Program will include funding for inventory, raw materials, supplies, and critical operating expenses for rural manufacturing businesses, including purposes that were not included in the allowable uses of PPP funds.

Can I get a B&I CARES Act Program loan if I already have a PPP or EIDL Loan?

Yes. However, the maximum B&I CARES Act Program loan amount a business may receive will be reduced by the amount of any SBA EIDL or PPP loans and other Federal emergency assistance they receive in order to prevent duplication of program services.

What are the terms of the loan? Is it guaranteed by the federal government?

The B&I CARES Act Program loan will be 90% guaranteed and require the lender to retain a percentage of the loan and thus hold some of the risk. The loans do not include terms for loan forgiveness and require 100% repayment by the borrower. Loan terms will be determined by the lender. The loans must be secured with business collateral and may require personal guarantees. Loan proceeds will be disbursed



through multiple draws on an as-needed monthly basis.

Where can I get a B&I CARES Act Program loan?

Any lender that is already approved as an SBA 7(a) loan program provider may offer B&I CARES Act Program loans. A bank or lender that is not already a participating lender in SBA's guaranteed business loan program (7(a) loan program) must be approved or authorized by the SBA.

Eligible applicants may contact their local USDA Rural Development [State Office](#) in the state where the business or project is located for further guidance.

What information will I need to provide to my lender to apply for a B&I CARES Act Program loan? What if I cannot get an appraisal right now because of social distancing or other restrictions?

Because access to appraisal, accounting, and financial services may be limited due to social distancing and business service restrictions the USDA is modifying its requirements for certain loan application information for the B&I CARES Act Guaranteed Loan Program in the following ways:

- (1) Lenders may accept appraisals completed within the last two years (rather than a current year appraisal), and updated appraisals (rather than completely new appraisals).
- (2) The threshold of the loan amount which triggers when appraisals are required for loans to align with guidance by FDIC and other credit supervision agencies has been increased.
- (3) The USDA will not require discounting the value of collateral for working capital loans but will continue to

require security for loans and will continue limiting the amount of the loan so that it does not exceed the market value of collateral.

- (4) Lenders may accept borrowers' tax records in lieu of obtaining historical financial statements to document a borrower's financial history and loan repayment ability. However, agricultural producers' financial records must meet the industry's standard accounting practices.

Do borrowers have to maintain a certain equity in their businesses as required with regular B&I loans?

The USDA has recognized that loss of income and ongoing fixed operating expenses may deplete a business's working capital and attempts by a business to finance working capital with additional debt will decrease the equity of a business. B&I CARES Act Program borrowers have more flexibility in the form of alternatives to meet the B&I requirement of 10% investment in the business by the borrower. The business must meet one of the following requirements at loan closing:

1. A minimum of 10 percent balance sheet equity (including subordinated debt when subject to a standstill agreement), or a maximum debt-to balance sheet equity ratio of 9 to 1;
2. A Borrower investment of equity or other funds into the project equal to 10 percent or more of total eligible project costs, (such investment may include grants or subordinated debt when subject to a standstill agreement); or
3. The balance sheet equity includes owner-contributed capital of 10 percent or more of total fixed assets (net total fixed assets plus depreciation).



What fees are associated with the loan?

The USDA, in balancing the needs of lenders and borrowers, has set the application and guarantee fee at two percent of the loan. The guarantee fee is paid at the time the Loan Note Guarantee is issued and may be included as an eligible use of guaranteed loan proceeds.

The annual renewal fee for B&I CARES Act Program Loans is one half of one (0.5) percent.

And how long will I have to pay back the loan?

This CARES Act Program utilizes existing authorities for deferral of principal and interest payments in the *first three years from loan origination and extends the maximum repayment term for working capital loans from 7 years to 10 years*. Interest shall be paid at least annually from the date of the note.

What are the acceptable uses for B&I CARES Act Program Loan funds?

Loan funds may be used for:

1. Wages, salaries, sales commissions to employees, group healthcare benefits, and other employee benefits;
2. Administrative expenses and administrative service contracts;
3. Property insurance, hazard insurance, and other business insurance;
4. Principal and interest payments excluding owner/stockholder debt and related party debts;
5. Rent, payments on leases, and routine maintenance;
6. Utilities;
7. Inventory, feed, seed, fertilizer and chemicals, livestock (excluding livestock for breeding) and supplies;
8. Marketing, shipping, and other expenses incurred through normal business operations or such additional expenses due

to the national COVID-19 Public Health Emergency;

9. Taxes; and
10. Loan costs and essential loan-related expenses.

Loan funds may NOT be used for:

1. Purchase and development of land, buildings, and associated infrastructure for commercial or industrial properties, including expansion or modernization;
2. Business acquisitions;
3. Leasehold improvements;
4. Constructing or equipping facilities;
5. Purchase of machinery and equipment; and
6. Debt refinancing unless such debt refinancing is for debts incurred after February 15, 2020 for eligible purposes listed above.

How much can the B&I CARES Act Program lend to a single borrower?

The total amount of B&I and B&I CARES Act Program Loans to one borrower (including the guaranteed and unguaranteed portions, the outstanding principal and interest balance of any existing B&I guaranteed loans, and the new loan request) cannot exceed *\$25 million*.

The maximum loan amount of the B&I CARES Act Program Loan for working capital purposes may not exceed 12 times the borrower's total average monthly costs of eligible working capital loan purposes less the total amount other Federal emergency assistance received (including PPP and EIDL loans).

The amount of the B&I CARES Act Program Loan will be based on a cash flow analysis and must not be greater than the amount needed to cure problems caused by the pandemic emergency



so that the business is reestablished on a successful basis. Losses and business operating expenses that were adequately paid by insurance or by loans or grants from other sources will not be covered by B&I CARES Act Program Loans.

Will the funding of this program run out?

The USDA has guaranteed \$1 billion in funding for this program. The Agency will consider applications in the order they are received. However, the Department may assign priority points to projects if the demand for funds exceeds availability. Program funding expires Sept. 30, 2021.

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