

USDA Rural Development

*Committed to the Future of
Rural Communities*

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Rural Business Services

- Business & Industry Guaranteed Loans
- Rural Business Enterprise Grants
- Intermediary Relending Program
- Rural Economic Development Loans
- Renewable Energy Efficiency Grants
- Value-Added Producer Grants



B&I Guaranteed Loans

- Create jobs and stimulate rural economies by providing financial backing for rural businesses
- Guaranteed loans made by lenders with our guarantee
 - Lender and borrower negotiate terms



Rural Area

- Business must be located in a rural area
- Population of 50,000 or less
- Web site to determine eligibility:

<http://eligibility.sc.egov.usda.gov>



Eligible Borrowers

- Cooperative, Corporation, Partnership, Individual, Tribal Group or Public Body
- 51% owned by persons who are either U.S. Citizens or have been legally admitted for permanent residence



Ineligible Borrowers

- Churches, Charitable or Fraternal Organizations
- Lending, Investing or Insurance Companies
- Government employees and military personnel who are directors or officers or have 20% or more ownership in the business



Eligible Loan Purposes

- Existing or Start-up Businesses
- Real Estate and Buildings
- Machinery & Equipment
- Term Working Capital
- Refinancing (max. 49% existing exposure)
- Hotels, restaurants, machine shops, processing facilities, retail stores, grocery stores, car dealerships



Ineligible Loan Purposes

- Agricultural Production
- Golf Courses
- Gambling
- Racetracks
- Housing
- Equity Distributions to Existing Owners (if maintaining any ownership)
- Line of Credit Loans
- Loans with Balloon Payments



Rates & Terms

- Real Estate 30 years
- Building or Construction 30 years
- Machinery & Equipment 15 years
- Working Capital 7 years
- Debt Refinancing 30 years

- Interest Rate is Negotiated between Business & Lender – *(can be Fixed or Variable, adjusting not more than quarterly)*



Percentage of Guarantee & Fees

- To \$5 Million.....up to 80%
- \$5 - \$10 Million.....up to 70%
- Over \$10 Million.....up to 60%

- Fee is 2% of Guarantee Amount
(\$500,000 x 80% x 2% = \$8,000)
plus annual recurring fee – currently 1/4 %



Credit Requirements - Collateral

- 1 to 1 coverage on a discounted basis
- Any reasonable, sound loan-to-value discount policy (consistent with non-guarantee loans)

Generally:

Real Estate/Buildings	75% of mkt value
M&E	60% of mkt value
AR & Inventory	60% of book value

Required: Unlimited, unsecured personal guarantees of anyone with 20% or more ownership in the business



Credit Requirements - Equity

- Existing Business 10%
- New Business/New Ownership 20%
- Tangible Balance Sheet Equity, as a % of Total Assets, on a Book Basis, according to GAAP

Must remove intangibles, subordinated debt and appraisal surplus from both assets and equity



Credit Requirements - Other

- Adequate Cash Flow & Debt Service Ability
- Management Ability
- Acceptable Personal & Business Credit History



Loan Process

- Pre-application
 - Lender's Credit Analysis
 - Make sure it includes source & use of funds and a post closing pro-forma balance sheet*
 - Financial Statements
 - (5 to 10 Business Days)
- Can call anytime to get our feel of the proposal before submitting any information.



Application

- Field Visit
- Application for Guarantee (*see packet*)
- Business Plan or Feasibility Study (*see packet*)
- Credit Reports
- Proposed Business Loan Agreement (*see packet*)
- Environmental Assessment/SHPO
- Appraisal

– (5 – 15 Business Days)



Loan Process

- Agency Credit Committee Approval
- Conditional Commitment is Issued
6 Day Delay (*see packet*)
- After Loan is Closed, submit Closing Docs.,
Appraisal, Balance Sheet & Check for Fee
- Loan Note Guarantee is Issued After the
Project is Complete



Participation or Sale of Guarantee

- Lender may sell 100% of the Guaranteed Portion of the Note
- Lender may sell some of the unguaranteed portion of the Note
- Lender is required to hold in its own portfolio a minimum of 5 percent of the total loan amount.



Sale of Guarantee – Example #1 (5.5% Premium, 2% Service Fee)

ASSUME \$500,000 LOAN, P+2(7%), 20 YEARS, 80% GUARANTEE

Original Loan	\$500,000
Sale Proceeds	<u>\$400,000</u>
Invested Funds	\$100,000

Approximate yield on invested Funds:

Service Fee: 2% on \$400,000	\$ 8,000
7% on \$100,000	\$ 7,000
5.5% Premium on \$400,000	<u>\$22,000</u>
Total Income	\$37,000

First year's yield on invested funds is approximately 37%
Subsequent years yields are approximately 15%



Sale of Guarantee – Example #2 (7.75% Premium, 1% Service Fee)

ASSUME \$500,000 LOAN, P+2(7%), 20 YEARS, 80% GUARANTEE

Original Loan	\$500,000
Sale Proceeds	<u>\$400,000</u>
Invested Funds	\$100,000

Approximate yield on invested Funds:

Service Fee: 1% on \$400,000	\$ 4,000
7% on \$100,000	\$ 7,000
7.75% Premium on \$400,000	<u>\$31,000</u>
Total Income	\$42,000

First year's yield on invested funds is approximately 42%

Subsequent years yields are approximately 11%



Loan Servicing Requirements

- Annual Financial Statements (GAAP)
- Annual Lender Analysis
- Annual Field Visit

- Liquidation is performed by lender with agency approval
- After applying sale proceeds, guarantee covers up to 80% of loss lender would have otherwise incurred.



Business Programs

- Business and Industry Guaranteed Loans
- Rural Business Enterprise Grants
- Value Added Producer Grants
- Renewable Energy Loans and Grants
- Intermediary Re-lending Program Loans
- Rural Economic Development Loans and Grants
- Cooperative Development Assistance

Business - Cooperative Loans and Grants

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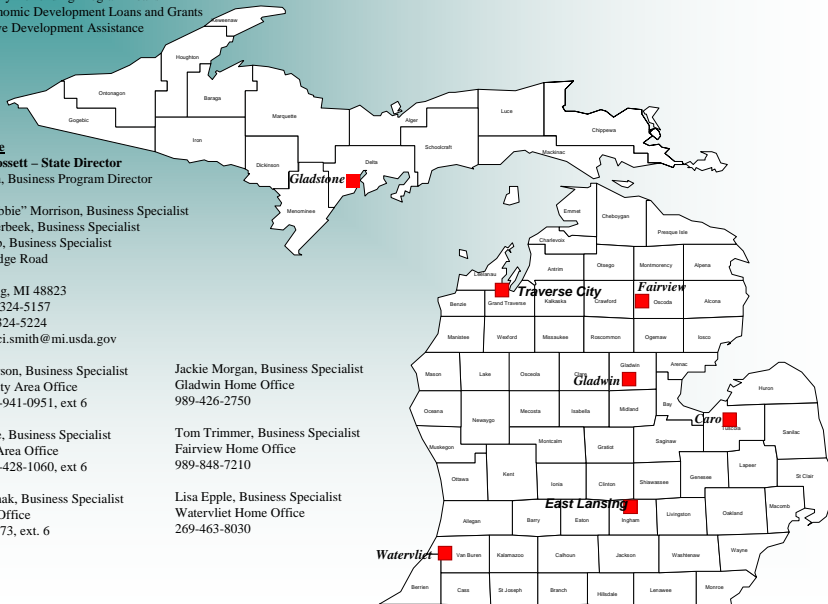
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Celebration Cinema - Mount Pleasant, Michigan



**Gas Compression
Traverse City, Michigan**



**Horner Flooring
Dollar Bay, Michigan**



Rural Business Enterprise Grants

- Facilitate the development of small and emerging private businesses
- Money goes to non profit or public body to spur business in the area – cannot go to private business
 - Eligible purposes include: feasibility studies, technical assistance, build access streets to industrial parks, establish revolving loan funds
 - No repayment required by entity receiving grant
 - Generally receive 4 times request vs. funds



**Midwest Nut Producers – Peeling Equipment
Funds used for chestnut shelling machine**



**Gateway Farmers Market – Clare, Michigan
Funds used for marketing study**

Intermediary Re-lending Program Loans (IRP)

- Finance businesses and community development projects in rural areas
- Public bodies, non-profit entities, and tribes apply to Rural Development
 - They establish revolving loan fund that funds local business development
 - They receive the loan from RD at 1% for 30 years
 - Local businesses receive loan on terms consistent with security offered



Rural Economic Development Loans

- Finance economic development and job creation in rural areas
- Only RUS financed electric and telephone cooperatives are eligible
- The cooperative makes loans to for-profit businesses, non-profit businesses or public bodies for rural economic development and/or job creation projects
 - Loan terms are 0% for 10 years



Renewable Energy & Efficiency Grants

- Matching grant program for renewable energy systems or energy efficiency improvements
- Eligible applicants are small businesses, farmers and ranchers
- Pays up to 25% of project costs including wind, solar, biomass, geothermal, or other renewable energy sources. Also can be used to make energy efficiency improvements





**Walters Gardens
Zeeland, Michigan**

Value-Added Producer Grants

- Matching grant program for value-added ventures
- Eligible applicants are agricultural producers and producer organizations
- Can be used to conduct feasibility analyses, develop business and marketing plans, and conduct other types of studies to help establish a viable value-added business venture. Can also be used to establish working capital accounts.



**Michigan Turkey Producers
Wyoming, Michigan**