



USDA Rural Development

Business Programs Overview – David Kramer

March 14, 2023

USDA Rural Development (RD) Programs

RD has more than 40 programs to support Rural America

- **Business and Cooperative Programs (BP)**
- Water and Environmental (WEP)
- Community Facilities (CF)
- Single-Family Housing (SFH)

For more information: rd.usda.gov



**In 2021
USDA Rural
Development
Invested
\$292 million
in Rural
Kansas**



47 rural Kansas business received a total of \$4.2 million in financing



1,916 families or individuals received a total of \$209 million in financing to buy or repair a home in rural Kansas



41 rural Kansas community projects received a total of \$27.8 million in financing



26 rural Kansas communities received a total of \$50.9 million in financing to improve water and sewer infrastructure

USDA Rural Development (RD) Programs

Business Programs:

- **Business & Industry Guaranteed Loan Program (B&I)**
 - New Food Supply Chain Guaranteed Loan Program (FSC)
- **Rural Energy for America Program (REAP)**
- **Value Added Producer Grants (VAPG)**
- Some other programs:
 - Grants: RBDG, MPPEP
 - Loans/Relending: REDLG, IRP
 - Energy: 9005, HBIIP

<https://www.rd.usda.gov/programs-services/business-programs>

USDA Rural Development (RD) Programs

Four USDA Rural Development (RD) Offices in Kansas:

Topeka, KS (State Office)

Hays, KS (Area Office)

Iola, KS (Area Office)

Newton, KS (Area Office)



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USDA Rural Development (RD) Business Programs

Rural Area

- Business must be located in an eligible rural area
- Ineligible areas are cities or towns that have a population of greater than **50,000** inhabitants and any urbanized area contiguous and adjacent to such city or town
- Rural area determination tool:
<http://eligibility.sc.egov.usda.gov/eligibility/>
- Rural area determination tool alternate link:
<https://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=RBSmenu>

Business & Industry Guaranteed Loans (B&I)



Business & Industry (B&I) Guaranteed Loans

Eligible Business Entities

- Corporations (profit or non-profit)
- Sole Proprietors
- Cooperatives
- Partnerships
- Indian Tribes



Business & Industry (B&I) Guaranteed Loans

Application Process

- Lender works with borrower to submit an application to the Rural Development office where the business is located.
- Lender is encouraged to work with Rural Development (RD) early in process to make determination of project eligibility.
 - Lender may submit a pre-application to assist with eligibility determination.
- Agency reviews application, conducts an environmental review, and addresses any concerns with Lender.
- Agency issues a conditional commitment.
- Once conditions are met, Agency issues the loan note guarantee.

Business & Industry (B&I) Guaranteed Loans

Loan Purposes:

- Business acquisition
- Real estate purchases and improvements
- Machinery and equipment
- Working capital
- Debt refinancing



Business & Industry (B&I) Guaranteed Loans

Debt Refinancing is eligible if:

- Project is viable
- Necessary to improve cash flow and create or save jobs
- Must be debt of the borrower reflected on its balance sheet
- Existing lender debt may be included provided:
 1. The loan being refinanced has been closed and current for at least the past 12 months, and
 2. The lender is providing better rates or terms
- Refinancing of existing lender debt may not exceed 50% of the overall loan

Business & Industry (B&I) Guaranteed Loans

Loan Limits:

- B&I Minimum loan amount: None
- B&I Maximum loan amount: \$25 million
 - Some exceptions for cooperatives



Business & Industry (B&I) Guaranteed Loans

Fees and Percentage of Guarantee:

- Business & Industry Guaranteed Loans
 - Initial guarantee fee: 3%, 1% reduced fee for some projects
 - Annual renewal fee: 0.5%
 - Issuance before construction: 0.5%
 - Guarantee by RD to the Lender: 80% of loan amount *(80% of a loan loss)*

Business & Industry (B&I) Guaranteed Loans

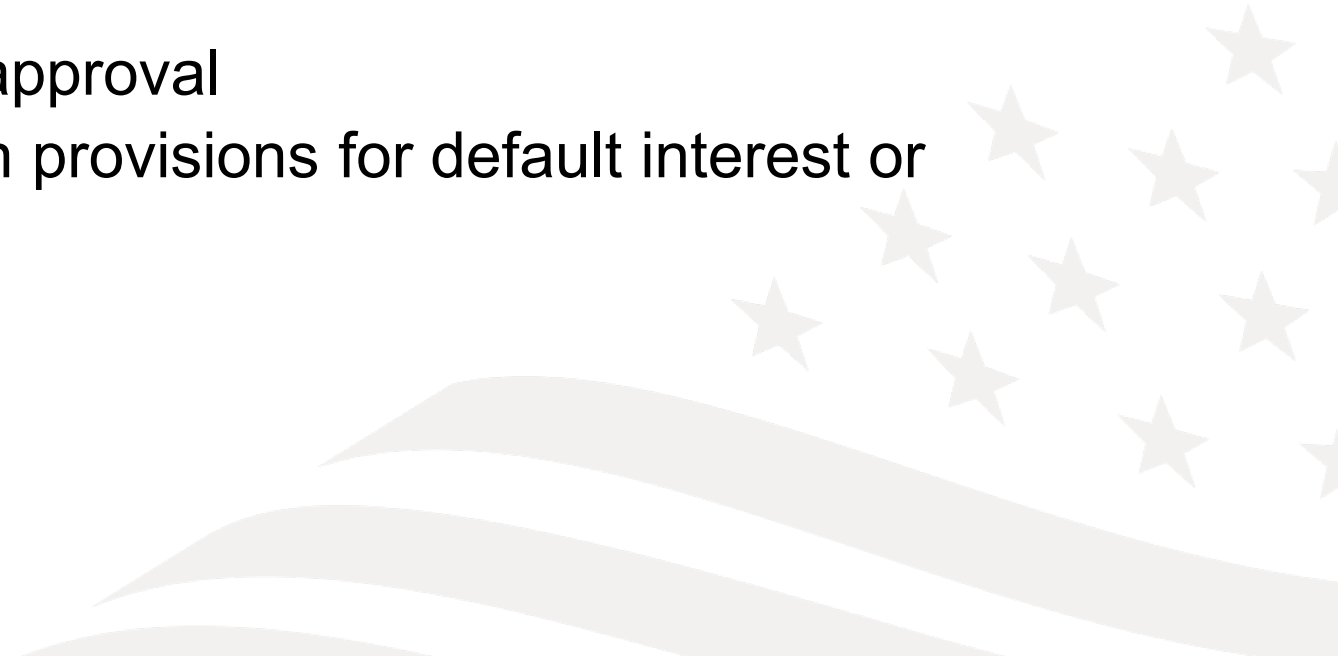
Routine Lender Fees:

- Charges and fees must be similar to those normally charged other applicants for the same type of loan in the ordinary course of business.
 - Lender fees are an eligible use of loan proceeds
- Prepayment penalties and late payment fees must be reasonable and customary.
 - The guarantee will not cover prepayment penalties or late payment fees

Business & Industry (B&I) Guaranteed Loans

Interest Rates:

- **Negotiated between the lender and borrower**
 - May be fixed, variable, or a combination
- Cannot be more than rates customarily charged borrowers for loans without guarantees
- Subject to Agency review and approval
- Promissory note cannot contain provisions for default interest or penalty interest



Business & Industry (B&I) Guaranteed Loans

Loan Terms – Repayment Period:

- Lender driven based on what lender historically provides
- Should be justifiable based on the useful life of the collateral
- Chart shows typical maximum lengths:

Real Estate	30 years
Machinery and Equipment	15 years
Working Capital (WC)	7 years

Business & Industry (B&I) Guaranteed Loans

Credit Quality

- Lender is responsible for conducting a financial analysis to assess a company's past performance, present condition, and future viability.
- Lender must address all elements of credit quality in a comprehensive, written credit analysis.
 - Credit analysis must address 5 C's →

Five Cs of Credit
Character
Capacity
Capital
Collateral
Conditions

Business & Industry (B&I) Guaranteed Loans

Collateral

- Lender must ensure the collateral has a documented value sufficient to protect the interest of the Lender and the Agency.
 - Discounted collateral value must be at least equal to the loan amount
 - Discount rates consistent with sound loan-to-discounted value practices.
 - Typical discounting rates:
 - 80% of fair market value for real estate
 - 70% for machinery and equipment
 - 60% for inventory and accounts receivable
- Intangible assets, not including goodwill, may be secondary collateral.
 - Goodwill cannot be considered collateral.

Business & Industry (B&I) Guaranteed Loans

Appraisals

- Independent, qualified appraisals are required for:
 - Real estate over \$500,000 in value
 - All real estate over \$100,000 also requires a Phase I Environmental Site Assessment
 - Existing chattel over \$250,000 in value
- Newly acquired chattel may be valued at cost, with a bill of sale
- Other collateral to be valued in a matter acceptable to your regulator

Business & Industry (B&I) Guaranteed Loans

Guarantees – Personal Guarantees by the Owner(s)

- Unsecured personal, partnership, or corporate guarantees required for any owner with at least 20% interest in the borrower
 - Guarantee must be at least equal to percent of ownership interest
 - Guarantee must be for full term of the loan



Business & Industry (B&I) Guaranteed Loans

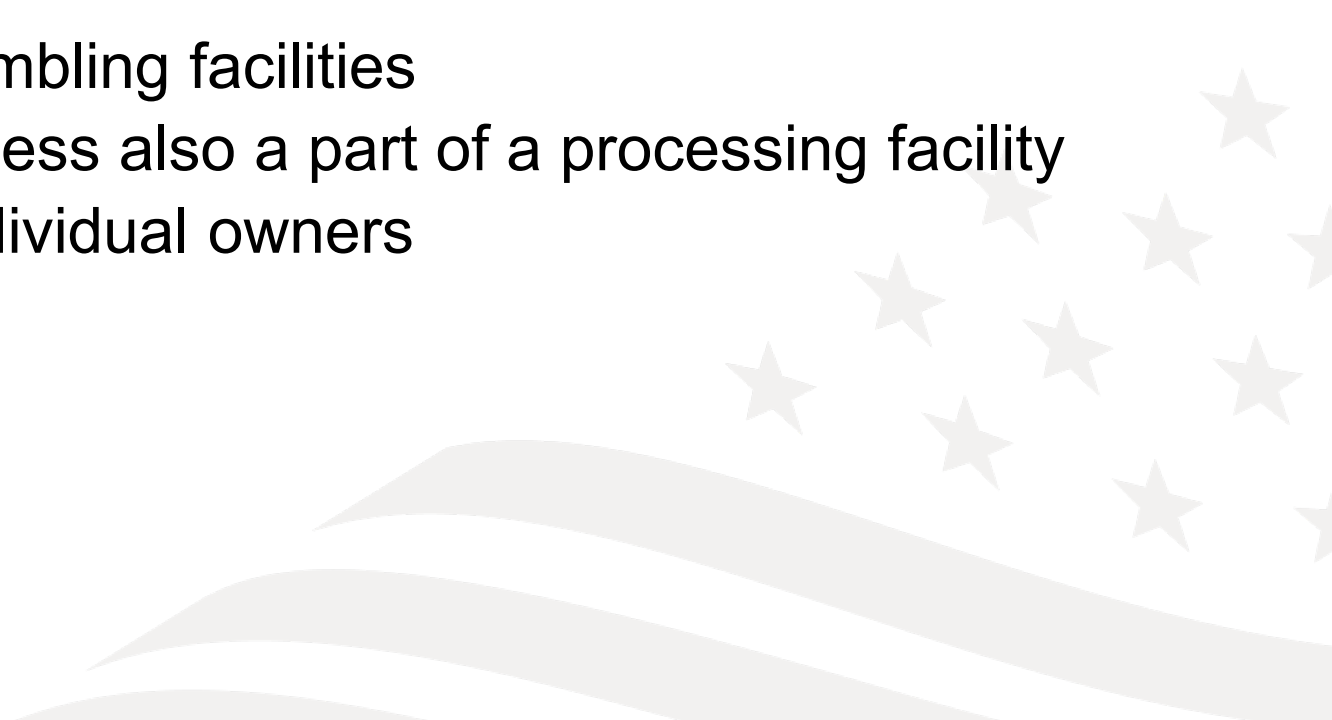
Equity Requirement

- Varies by borrower and equity type:

Borrower Type	Balance Sheet Equity	Project Equity
Existing Business	≥10%	≥10%
New business, has sales contracts at least equal to loan term	≥10%	≥10%
New business, guarantee issued prior to completing construction	≥25%	≥25%
New business, all other borrowers	≥20%	≥25%

Business & Industry (B&I) Guaranteed Loans

Ineligible uses of loan funds include:

- Lines of credit
 - Owner-occupied housing, apartments, duplexes, residential trailer parks, housing development sites
 - Golf courses, racetracks, or gambling facilities
 - Most agricultural production unless also a part of a processing facility
 - Distributions or payments to individual owners
- 

Rural Energy for America Program (REAP)



Rural Energy for America Program (REAP)

REAP Program Overview















- Provides grant funding or guaranteed loan financing to:
 - Rural small businesses
 - Agricultural producers
- Eligible projects include:
 - Energy Efficiency Improvements
 - Renewable Energy Systems



Rural Energy for America Program (REAP)

Applications Deadlines

- Grants under \$20,000:
 - First round: October 31, 2022
 - Second round: **March 31, 2023**
- Grants over \$20,000:
 - All applications: **March 31, 2023**
- Guaranteed Loan applications accepted continuously, year-round

Energy Efficiency		Renewable Energy	
	Lighting		Solar
	Heating		Wind
	Cooling		Small Hydroelectric
	Ventilation		Anaerobic Digesters
	Fans		Biomass
	Automated Controls		Geothermal
	Insulation		Wave/Ocean Power

Rural Energy for America Program (REAP)

REAP Grants

- Reimbursement after project is complete
- Up to **25% of Eligible Project Cost (IRA increased this to 40%)**
- Minimum and maximum amounts based on project type:

 Renewable Energy Systems		 Energy Efficiency Improvements	
Minimum Grant Request	\$2,500 Total eligible project costs \geq \$10,000	Minimum Grant Request	\$1,500 Total eligible project costs \geq \$6,000
Maximum Grant Request	\$500,000 Total eligible project costs \geq \$2 million	Maximum Grant Request	\$250,000 Total eligible project costs \geq \$1 million

Rural Energy for America Program (REAP)

Krehbiels Specialty Meats, Inc.

- McPherson, KS
- Replaced existing lighting with energy efficient LED lighting in the retail store and processing plant
- Energy savings with approximately 2.53-year simple payback
- Total project cost \$24,285, received a \$6,071 REAP grant



Rural Energy for America Program (REAP)

Peabody Market

- Peabody, KS
- Replaced inefficient coolers and refrigerators
- Significant Energy savings
- Total project cost was \$36,200, received a \$9,050 REAP grant



Rural Energy for America Program (REAP)

Sollo Vineyard

- Whitewater, KS
- Purchase and install a 53-kilowatt solar array
- The solar energy created will replace 80% of the business' energy use per year
- Total project cost was \$103,696, received a \$20,000 REAP grant.



Rural Energy for America Program (REAP)



REAP Guaranteed Loans

- Up to 75% of Eligible Project Costs

Minimum Loan Amount	\$5,000 Total eligible project costs \geq \$6,667
Maximum Loan Amount	\$25 million Total eligible project costs \geq \$33.4 million
Details	<ul style="list-style-type: none">• USDA guarantees a commercial loan, applicant must have a willing lender• Terms are negotiated between the lender and borrower• Fees, appraisals, equity and collateral requirements apply

Value Added Producer Grants (VAPG)

The Value-Added Producer Grant (VAPG) program helps agricultural producers enter into value-added activities related to the processing and marketing of new products. The goals of this program are to generate new products, create and expand marketing opportunities and increase producer income.

Value Added Producer Grants (VAPG)

VAPG Program Overview

- Specifically provides grant funding to Ag producers for Value-Added Activities
- Application period is once per fiscal year.
- FY **2023 has not been announced yet, but expect it next month**
(as of 3-14-23)
- National competition
- Match required (50%)
- Two categories (Limits based on past years) :
 - Planning Grant up to \$75,000
 - Working Capital Grant up to \$250,000

Value Added Producer Grants (VAPG)

Program Eligibility

- Planning Grant eligible projects include:
 - Conducting a feasibility study
 - Developing a business plan
- Working Capital eligible projects include:
 - Marketing & advertising expenses
 - Processing costs
 - Some inventory and salary expenses



Value Added Producer Grants (VAPG)

Project Eligibility

Value Added Products include:

1. Undergoing a physical change (e.g., grapes to wine, wool to clothes)
2. Produced in a manner that enhances value (e.g., organic, free range)
3. Physical segregation (e.g., separate non-GMO corn field/processing line)
4. Farm/Ranch based renewable energy (e.g., manure into electricity)
5. Locally marketed agricultural product (e.g., w/in 400 miles)

At least half (50%) of the product must be produced and owned by the applicant from production through processing.

Questions?



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