

USDA Rural Development Business and Industry Guaranteed Loans

What is the USDA Business and Industry Guaranteed Loan Program?

The purpose of the U.S. Department of Agriculture (USDA) Business and Industry (B&I) Guaranteed Loan Program is to improve the economic and environmental climate in rural communities through the development, improvement, or financing of business, industry, and employment. The program provides guarantees on loans made by private lenders to eligible rural borrowers of up to 60, 70, or 80 percent, depending on loan size.¹ Loans eligible for the B&I program guarantees are generally limited to a maximum of \$10 million per borrower, although in some circumstances larger loan amounts may be approved.²

Who can use the B&I program?

Institutions under the supervision of and subject to credit examination by a federal or state agency, including federally and state-chartered banks and thrifts and Farm Credit

System banks are eligible to participate in the B&I program. All lenders must execute a [lender's agreement](#) with the USDA to participate.

The B&I program provides guarantees for loans made to businesses that save or create jobs in rural areas. Borrowers may be individuals, partnerships, cooperatives, for-profit or nonprofit corporations, Indian tribes, or public bodies. Individual borrowers must be citizens of the United States (U.S.) or reside in the U.S. after being legally admitted for permanent residence. Private entity borrowers must demonstrate that loan funds will remain in the U.S. and that the financing will primarily create new or save existing jobs for rural U.S. residents.

The program is open to new and existing businesses. Eligible business activities include manufacturing, wholesaling, retailing, providing services, and other activities that provide employment and improve the economic or environmental climate. Generally, qualifying businesses for

¹ The administrator of the Rural Business-Cooperative Service (RBCS) may, at his or her discretion, grant an exception allowing guarantees of up to 90 percent on loans of \$5 million or less if (1) the project to be financed is a high-priority project as defined in 7 CFR 4279.2, or (2) the lender documents, to the satisfaction of the RBCS, that the loan will not be made and the project will not be completed due to the bank's legal or regulatory lending limit if the higher percentage of guarantee is not approved. 7 CFR 4279.119(b).

² The administrator of the RBCS may, at her or his discretion, grant an exception to the \$10 million limit for loans up to \$25 million under certain circumstances. The USDA Secretary may approve guaranteed loans in excess of \$25 million, up to \$40 million, for rural cooperative organizations that process value-added agricultural commodities in accordance with 7 CFR 4279.113(j)(1). See 7 CFR 4279.119(a)(2).

the loan guarantees must be located in rural areas. The USDA offers an [online tool](#) to help borrowers determine whether their project is located in an eligible rural area. There are two exceptions that allow guarantees for projects located on properties outside of rural areas. Under the first exception, cooperative facilities in non-rural areas may be eligible for loan guarantees if (1) they have a primary purpose of value-added processing for agricultural producers that are located within 80 miles of the facility, (2) the primary benefit of the loan will be to provide employment for rural residents, and (3) they meet other program criteria. The second exception applies to projects located in urban areas if they process, distribute, aggregate, store, and/or market agricultural food products to support community development and farm and ranch income and a significant amount of that food product is both produced and sold locally or regionally.³

What types of business uses are eligible for loan guarantees?

The B&I program may guarantee loans used for a wide variety of business activities, including but not limited to the following:

- Purchase and development of land, buildings, and associated infrastructure for commercial or industrial properties.
- Business acquisitions, provided that jobs will be created or saved.
- Leasehold improvements, provided that the lease contains no reverter clauses or other restrictive clauses that would

impair the use or value of the property as security for the loan.

- Constructing or equipping facilities for lease to private businesses engaged in commercial or industrial operations.
- Purchase of machinery and equipment.
- Startup costs, working capital, inventory, and supplies in the form of a permanent working capital term loan.
- Debt refinancing, when the lender has determined that the project is viable and that refinancing is necessary to improve cash flow and create or save jobs.

Cooperatives have been important economic development partners with the USDA. The B&I program guarantees qualifying loans to individual farmers or ranchers to purchase cooperative stock in a farmer or rancher cooperative established to process an agricultural commodity. Similarly, the USDA may guarantee loans for the purchase of preferred stock or similar equity⁴ issued by a cooperative organization or for a fund that invests primarily in cooperative organizations, provided that the guarantee significantly benefits one or more entities eligible for assistance under the B&I program. Loans used to purchase stock in a business by employees forming an employee stock ownership plan or worker cooperative are also eligible for guarantees.

The B&I program may be used to guarantee a leverage loan⁵ in a new markets tax credit (NMTC) transaction.⁶ Banks considering using B&I program guarantees in NMTC transactions should consult the USDA and

³ 7 CFR 4279.113(y)(2).

⁴ “Similar equity” means any special class of stock that is available for purchase by non-members and/or members and lacks voting and other governance rights. See 7 CFR 4279.115(b)(1).

⁵ For more information on leverage loans and the New Markets Tax Credit Program, please see “[New Markets Tax Credits: Unlocking Investment Potential](#),” *Community Developments Insights*, OCC, June 2013.

⁶ New Markets Tax Credit, 7 CFR 4279.116, as amended, 82 Fed. Reg. 26335–26336 (June 7, 2017).

appropriate tax and legal professionals for guidance.

How do banks participate in the B&I program?

The B&I program is lender-driven. Banks use their own documents, security instruments, and commercial underwriting requirements. Subject to the limitations outlined in the program regulations, banks set their own interest rates and terms and service their own loans. Local USDA Rural Development personnel can assist through the entire process, enabling banks to focus on and enhance customer relationships.

USDA guaranteed loan portions are actively traded in the secondary market through a network of broker-dealers. In addition, under the Federal Agriculture Mortgage Corporation's ([Farmer Mac](#)) [USDA Guaranteed Loan Purchase](#) program (also known as Farmer Mac 2), a lender may sell the guaranteed portion of the loan to Farmer Mac.

Banks new to B&I loan guarantees are encouraged to contact their state's USDA Rural Development office to learn more about the program.

CRA consideration

B&I program loans have the potential to receive CRA consideration as either loans to small businesses or as community development loans, depending on the amount and purpose of the loans, the type and size of the institutions being examined, and whether the loans benefit the

institutions' CRA assessment area(s) or the broader statewide or regional area that includes the institutions' assessment area(s). For example, the lending test applicable to evaluating large institutions includes an assessment of small business loans that meet the definition of "loans to small business" as defined in the instructions for preparing Consolidated Reports of Condition and Income.⁷ B&I program loans in amounts greater than \$1 million may qualify as community development loans if they meet the CRA definition of community development. Institutions evaluated under the small and intermediate small bank tests also may receive CRA consideration for loans that finance small businesses. Further, intermediate small banks may opt to have business loans of any amount that meet the definition of community development considered as either business loans under the lending test or community development loans under the community development test.

Providing technical assistance on financial matters to a small business may qualify as a community development service. For example, banks may receive consideration for providing assistance to small businesses in preparing loan application packages for submission to local, state, or federal government agencies. For additional information and guidance on CRA, refer to the CRA regulations and the *Interagency Questions and Answers Regarding Community Reinvestment*.⁸

⁷ Loans to small businesses are defined as those with original amounts of \$1 million or less and that are reported as "loans secured by nonfarm or nonresidential real estate" or "commercial and

industrial loans" in Part I of the Call Report Schedule RC-C.

⁸ 81 Fed. Reg. 48506 (July 25, 2016).

Additional Information

[USDA Rural Development](#)

[USDA B&I program](#)

USDA Rural Development [State Offices](#)

“USDA Business and Industry Guaranteed Loan Program,” *Community Development Insights*, OCC, September 2018.

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