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USDA Rural Development Business and Industry Guaranteed Loan Program

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Abstract

This Insights report provides an overview of the U.S. Department of Agriculture's (USDA) Business and Industry (B&I) Guaranteed Loan Program and discusses certain risks and regulatory issues that banks[1] may consider when using the program. The B&I program guarantees a portion of loans made by banks and other approved lenders to finance eligible businesses located in rural areas. This guarantee helps credit-worthy businesses in rural areas obtain financing with the intent of saving and growing jobs in rural America.[2] The loan guarantee, if properly structured and managed, may also help banks manage risk and comply with legal lending limits and capital requirements. Loans guaranteed through the B&I program may be eligible for Community Reinvestment Act (CRA) consideration.

I. What Is the B&I Guaranteed Loan Program and How Does It Work?

The B&I program is administered by the Rural Business-Cooperative Service, an agency within the Rural Development mission area of the USDA. On December 10, 2021, USDA Rural Development (RD) issued revisions to the OneRD Guarantee regulation, which were effective upon publication.[3] The OneRD Guarantee regulations provide one set of regulations for four of RD's commercial loan guarantee programs, including the B&I program.[4] A primary purpose of

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[1] This report uses "banks" to refer collectively to national banks and federal savings associations.

[2] Refer to 7 CFR 5001.126(d)(4).

[3] Refer to 86 Fed. Reg. 70349 (Dec. 10, 2021).

[4] Refer to "OneRD Guarantee Implementation: Procedures for treatment of B&I, REAP, CF, and WEP Guarantee applications," April 20, 2022.

the B&I program is to improve, develop, or finance business industry and employment and improve the economic and environmental climate of rural communities. This purpose is achieved by bolstering the existing private credit structure through the guarantee of quality loans[5] that will provide lasting community benefits.

The program generally provides a guarantee of 80 percent on loans made by private lenders to eligible rural borrowers. RD publishes an annual notice in the *Federal Register* outlining the fees and guarantee percentages of the B&I program each year. Loans eligible for B&I program guarantees are generally limited to a maximum of $25 million per borrower.[6] The USDA will only guarantee loans that are sound and have a reasonable assurance of repayment.[7] Applications for loan guarantees will be accepted and processed without regard to the availability of credit from any other source.[8]

Demand for the program may exceed the supply of available funds in any given year. The current level of available funds and the number of pending applications can be tracked at OneRD Guarantee. Applications for loan guarantees are given a priority scoring, based on criteria discussed later in this report, which is used to compare pending applications.[9]

Eligible Lenders

Most banks under the supervision and subject to credit examination by a federal or state regulatory agency, including national- and state-chartered banks, Farm Credit System banks, and federally and state-chartered thrifts, are eligible to participate in the B&I program. Credit unions are eligible provided they are subject to state agency or National Credit Union Administration examination and supervision. Nonregulated lenders, such as nondepository community development financial institutions (CDFI), community development corporations, insurance companies, and mortgage companies with successful commercial lending activities are eligible to participate in the B&I program. RD may approve nonregulated lending entities that meet certain requirements for up to five years, and such entities have the ability to request renewals to maintain eligibility.[10] All lenders must execute a Lender's Agreement with the USDA to participate in the program.[11]

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[5] It is not intended that the guarantee authority will be used for marginal or substandard loans or for relief of lenders having such loans. Refer to 7 CFR 4279.101(b).

[6] Refer to 7 CFR 5001.406(c). The Secretary may approve guarantee loans more than $25 million in certain circumstances

[7] Refer to 7 CFR 5001.315.

[8] The B&I program does not have a “credit elsewhere” test; applicants, however, are encouraged to seek other funding sources to leverage the RD’s limited funding.

[9] Refer to 7 CFR 5001.318.

[10] Refer to 7 CFR 5001.130.

[11] Refer to 7 CFR 5001.131.

Eligible Borrowers

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.[12] According to program requirements, individual borrowers must be citizens of the United States or reside in the United States after being legally admitted for permanent residence and provide a permanent green card.[13] The program requires that private-entity borrowers must demonstrate that loan funds will remain in the United States and the project being financed will primarily create new or save existing jobs for rural U.S. residents.[14]

The program is open to both new and existing businesses. Eligible business activities include projects that improve, develop, or finance business, industry, and employment and improve the economic and environmental climate in rural communities.[15] Program rules require borrowers to have sufficient capital or equity to mitigate the ongoing financial and operational risks of the business. Existing businesses may meet the capital and equity requirements by having a minimum of 10 percent balance-sheet equity or a maximum debt-to-balance sheet equity ratio of 9 to 1 at loan closing.[16] See table 1 for more details. The RD will determine balance sheet equity based upon current and projected borrower financial statements.

[12] Refer to 7 CFR 5001.126(d).

[13] Refer to 7 CFR 5001.126(d)(3).

[14] Refer to 7 CFR 5001.126(d)(4).

[15] Refer to 7 CFR 5001.105(a).

[16] Refer to 7 CFR 5001.105(d)(1).

Table 1: Summary of Capital/Equity Requirements under 7 CFR 5001.105(d).

Borrower	Percent Balance Sheet Equity:	Borrower Investment as percent of total eligible project cost	Balance sheet equity includes owner contributed capital as a percentage of total fixed assets
Existing Businesses	≥10%	≥10%	≥10%
Borrowers that are new businesses with sales contract(s) adequate to meet debt service and the term of the sales contract(s) are at least equal to the term of the guaranteed loan.	≥10%	≥10%	N/A
Borrowers that are new businesses for a project involving construction and the lender will request the loan note guarantee prior to completion of construction.	≥25%	≥25%	N/A
All other borrowers that are new businesses	≥20%	≥25%	N/A

Source: 85 Fed. Reg. 42518, July 14, 2020.

Eligible Areas

For the most part, the B&I program requires projects to be in rural areas.[17] Rural areas are generally areas 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.[18] Some locations may be eligible for priority points, such as areas with certain distressed communities[19] or certain tribal areas.[20] The USDA offers an online tool to help borrowers determine if their properties are eligible.

There are two exceptions that allow guarantees for projects located outside of rural areas. Under the first exception, cooperative facilities in nonrural areas may be eligible for loan guarantees if they have a primary purpose of value-added processing for agricultural producers that are located within 80 miles of the facility, the primary benefit of the loan will be to provide employment for rural residents, the principal amount of the loan does not exceed $25 million, and there is funding availability in the fiscal year for nonrural cooperative projects.[21] The second exception applies to projects that process, distribute, aggregate, store, or market locally or regionally produced agricultural food products to support community development and farm and ranch income. These

[17] Refer to 7 CFR 5001.105(c).

[18] Refer to 7 USC 1991(a)(13); 7 CFR 5001.3 (definition of "rural"). The Under Secretary for Rural Development may determine an area is a rural area if it is determined that the area is "rural in character," 7 USC 1991(a)(13)(D), 7 CFR 5001.3.

[19] Refer to 7 CFR 5001.318(b)(1-3).

[20] Refer to 7 CFR 5001.318(b)(4).

[21] Refer to 7 CFR 5001.105(b)(18)(ii).

projects may be located in urban as well as rural areas, provided that the project meets the USDA's eligibility requirements, including the requirement that a significant amount of the food product sold by the borrower is locally or regionally produced and sold.[22]

Eligible Business Purposes

The B&I program may guarantee loans used for a wide variety of business purposes, including but not limited to the following:[23]

- Purchase and development of land, buildings, and associated infrastructure for commercial or industrial properties.
- Business acquisitions, start-ups, and expansions if jobs will be created or saved.
- Leasehold improvements.[24]
- Constructing or equipping facilities for lease to private businesses engaged in commercial or industrial operations.
- Purchase and installation of machinery and equipment.
- Startup costs, working capital, inventory, and supplies in the form of a permanent working capital term loan.
- Processing, distributing, aggregating, storing, and/or marketing locally or regionally produced agricultural food products.
- Debt refinancing when it is determined that the project is viable, refinancing is necessary to improve cash flow, and the other requirements of 7 CFR 5001.102(d) are met.
- Takeout of interim financing when the application is submitted prior to closing the interim financing.[25]

Loan funds can also be used for a variety of purposes including recreation and tourist facilities, nursing homes and assisted living facilities, educational facilities, certain community facility projects, pollution control, and certain energy projects.

Cooperatives have been important economic development partners with the USDA. The B&I program may guarantee loans to individual farmers or ranchers to purchase cooperative stock in a farmer or rancher cooperative established for the purpose of processing an agricultural commodity. The cooperative may use the proceeds from the stock sale to recapitalize, develop a new processing facility or product line, or expand an existing production facility.[26] The B&I

[22] Refer to 7 CFR 5001.105(b)(15).

[23] Refer to 7 CFR 5001.105(b).

[24] The lease cannot contain reverter clauses or restrictive clauses that would impair the use or value of the property as security for the loan. Refer to 7 CFR 5001.105(b)(14).

[25] Refer to 7 CFR 5001.121(c)(6).

[26] Refer to 7 CFR 5001.140(a).

program may guarantee loans for the purchase of preferred stock or similar equity[27] issued by a cooperative organization or for a fund that invests primarily in cooperative organizations, provided the guarantee significantly benefits one or more entities eligible for assistance under the B&I program.[28] Loans used to purchase stock in a business by employees forming an Employee Stock Ownership Plan or worker cooperative are also eligible for loan guarantees.[29]

The B&I program may be used to guarantee loans used in or with New Market Tax Credit (NMTC) transactions.[30] The borrower in these transactions can be a lender entity (source loan), investor fund entity (leverage loan), or qualified active low-income businesses (direct loan).[31] The OCC recommends banks that are considering using B&I program guarantees in NMTC transactions consult the USDA and appropriate tax and legal professionals for guidance.

The following is a nonexhaustive list of projects that are ineligible for the B&I program:

- Lines of credit.
- Projects in excess of $1 million that would likely result in the transfer of jobs from one area to another and increase direct employment by 50 or more employees.
- Most forms of owner-occupied housing.
- Golf courses and other recreational-type facilities, such as zoos and amusement parks.
- Racetracks or gambling facilities.[32]

II. How Are Loans Underwritten and Structured?

The lender is primarily responsible for determining credit quality. The B&I program requires the lender to prepare a credit evaluation that is consistent with RD standards, including capacity (e.g., sufficient cash flow to service the debt), collateral (e.g., assets to secure the loan), conditions (e.g., general business and industry affecting the borrower), capital (e.g., resources to adequately capitalize the project), and character (e.g., qualities that impel the borrower to meet its obligations, including credit history, debt structure, and repayment ability).[33]

[27] Any special class of stock that is available for purchase by non-members and/or members and lacks voting and other governance rights. Refer to 7 CFR 5001.140(c)(1).

[28] Refer to 7 CFR 5001.140(c).

[29] Refer to 7 CFR 5001.140(d).

[30] Refer to 7 CFR 5001.141 for specifics on the New Market Tax Credit program.

[31] For more information, please see OCC, Community Development Insights, "New Markets Tax Credits: Unlocking Investment Potential" and "Community Development Financial Institutions Fund New Markets Tax Credit Program Self-Assessment Guide for Native Organizations."

[32] Refer to 7 CFR 5001.15, 5001.118.

[33] Refer to 7 CFR 5001.202(b).

The B&I program is subject to the National Environmental Policy Act and other federal laws designed to assure that federally supported projects do not harm the environment.[34] Lenders are responsible for understanding the potential environmental impacts of the project being financed. RD will complete an environmental analysis on all B&I projects. The level and complexity of environmental review will depend on the scope of project.

Collateral

The USDA requires that the lender ensure that the collateral for the loan has a documented value sufficient to protect the interests of the lender and the USDA.[35] Under B&I program requirements, the collateral value[36] must secure the entire guaranteed loan, and the entire loan must be secured by the same collateral with equal lien priority for the guaranteed and unguaranteed portions of the loan.[37]

Term and Rates

A loan's maturity is determined based on the use of the guaranteed loan funds, the useful economic life of the assets being financed and used as collateral, and the borrower's ability to repay the loan. Loan terms are also subject to program maximums that vary with the useful life of the project or assets used as collateral.[38]

The interest rate on the loan may be fixed or variable rate, or a combination, and is negotiated between the lender and the borrower. The RD permits different interest rates on the guaranteed and unguaranteed portions of the loan. Interest rates on guaranteed loans cannot be higher than those rates customarily charged to borrowers without guarantees under similar circumstances in the ordinary course of business.[39] Interest rates are subject to USDA review and approval.

Fees

A guarantee fee is charged when the guarantee is issued. The guarantee fee is charged to the lender and may be passed on to the borrower as an eligible use of guaranteed loan proceeds. The amount of the guarantee fee[40] is set annually by the USDA and published in the *Federal*

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[34] Refer to 7 CFR 5001.207.

[35] Refer to 7 CFR 5001.202(b)(4).

[36] The lender must discount collateral consistent with the sound loan-to-discounted value policy outlined in 7 CFR 5001.202(b)(4)(ii).

[37] Refer to 7 CFR 5001.450(b)(1).

[38] Refer to 7 CFR 5001.402(a).

[39] Refer to 7 CFR 5001.401. It is permissible to have different interest rates on the guaranteed and unguaranteed portions of the loans.

[40] The amount of the guarantee fee is determined by multiplying the total loan amount by the guarantee fee rate by

Register. In fiscal year 2025, the fee was set at 3 percent of the guaranteed amount.[41] Under some circumstances, the USDA may charge a reduced guarantee fee if requested by the lender. USDA may charge a reduced guarantee fee for loans to locally owned and managed businesses that support value-added agriculture, or loans to businesses that process, distribute, aggregate, store, and/or market locally or regionally produced agricultural food products and promote access to healthy foods.[42]

The lender pays an annual guarantee retention fee,[43] which is required to maintain the enforceability of the guarantee. The fee may be passed on to the borrower.[44] The annual guarantee retention fee is set annually by the USDA and published in the *Federal Register*. In fiscal year 2024, the fee was set at 0.55 percent.[45] The rate that is in effect at the time the loan is obligated remains in effect for the life of the guarantee of the loan.

All lender fees are negotiated between the borrower and the lender. The lender may establish and charge fees for the loan provided they are similar to fees charged to other applicants for the same type of loan not subject to a loan guarantee.[46] Fees are an eligible use of loan proceeds.[47] Lenders may charge pre-payment penalties.

III. How Do Lenders Apply for a Guarantee?

Application Process

The B&I program is a lender-driven program. Banks use their own documents, security instruments, and commercial underwriting requirements. Subject to the limitations previously discussed, 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.

Banks new to the B&I program are encouraged to contact their state USDA Rural Development office to learn more about the program. Lenders approved to participate in the program must

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the percentage of the guarantee.

[41] Refer to 89 Fed. Reg. 53041 (June 25, 2024).

[42] Refer to 7 CFR 5001.454(d).

[43] The amount of the annual guarantee retention fee is determined by multiplying the full outstanding principal loan balance as a date(s) published in the annual *Federal Register* notification by the percentage of guarantee, by the fee rates as noted in the guarantee loan conditional commitment. 7 CFR 5001.455(a).

[44] Refer to 7 CFR 5001.509.

[45] Refer to 89 Fed. Reg. 53041 (June 5, 2024).

[46] Refer to 7 CFR 5001.403.

[47] Refer to 7CFR 5001.121(c).

execute a Lender's Agreement with the USDA. If a valid Lender's Agreement exists, it is not necessary to execute a new Lender's Agreement for each new loan guarantee.

After the lender has agreed to finance the proposal, the lender may apply for a guarantee from the USDA. Applications are submitted to the USDA Rural Development's network of state and area offices. The appropriate state or area office to contact is the office where the project is located.

Although it is not required, the USDA encourages lenders to request a preliminary eligibility review for each loan guarantee request. The preliminary eligibility review is used to prescreen the loan for program eligibility and reduce the amount of time needed for a formal application. A limited amount of information is submitted in the preliminary eligibility review process, and the lender will receive RD comments before submitting a full application.[48]

According to program goals, upon receipt of a complete application a lender can expect a response on its guarantee request within 30–60 days, unless: approval is prevented by a lack of guarantee authority; there are delays resulting from public comment requirements of the environmental assessment; or delays are due to outstanding Department of Labor clearance issues.[49] Response times can vary based on the complexity and scope of the proposed project.

A loan priority scoring system is used to compare an application to other pending applications. Loans are evaluated according to multiple criteria, including the population of the area in which the project will be located (e.g., whether the project is located in a distressed community), the interest rate of the loan, the impact the business will have in creating jobs and community benefits, and the project's consistency with community economic development strategies and state strategic plans.

If the loan guarantee application meets the program qualifications, a conditional loan guarantee commitment is issued. This conditional commitment includes a list of conditions that must be met by the lender and borrower before for the USDA will issue a guarantee.[50] These conditions generally include standard financial performance requirements, such as placement of liens on collateral and successful USDA staff inspections of the project site. Some loans may require additional conditions. In some situations, the lender may negotiate with the USDA to receive the guarantee on the loan prior to construction of the facility.

[48] Refer to 7 CFR 5001.302.

[49] Refer to 7 CFR 5001.306.

[50] Refer to 7 CFR 5001.451.

IV. How Are Loans Managed?

Secondary Market

USDA guaranteed loan portions are actively traded in the secondary market through a network of broker-dealers. Lenders may obtain participation in the loan or assign all or part of the guaranteed portion of the loan on the secondary market, subject to certain conditions.[51] Banks can sell the guaranteed portion of the loan to create a source of liquidity and manage liquidity risk. A bank that sells the guaranteed loan portion and retains the unguaranteed portion remains exposed to credit risk on the unguaranteed portion. The principal and interest of the guaranteed portions of B&I program loans purchased in the secondary market are unconditionally guaranteed by the full faith and credit of the U.S government. The originating lender is responsible for serving the loan.[52]

Loan Servicing

The lender is responsible for servicing the entire B&I loan (both the guaranteed and unguaranteed portions) in a prudent manner. These responsibilities are fully described in the Lender's Agreement and in 7 CFR 5001. Generally, the B&I loan servicing requirements are standard, but lenders should be sure to review these documents and to discuss requirements with the relevant Rural Development field office staff.

In addition to servicing the loan, the USDA requires lenders to meet all the reporting and other communication requirements of the B&I Guaranteed Loan Program.

Borrowers are required to submit annual financial statements, which the lender must submit to the USDA within 120 days of the end of the borrower's fiscal year. Additionally, the lender must analyze the financial statements and provide the USDA with a written summary of the lender's analysis and conclusions, including trends, strengths, weaknesses, extraordinary transactions, and other indications of the financial condition of the borrower. [53]

Reporting Requirements

The following are specific reporting requirements from the lender to USDA:

- Semiannually—by June 30 and December 31—on the loan's status and remaining balance (use Form RD 5001-7).[54]

[51] Refer to 7 CFR 5001.408(a).

[52] The lender may contract for services but is ultimately responsible for underwriting, loan origination, loan servicing, and compliance with all USDA regulations. Refer to 7 CFR 5001.501.

[53] Refer to 7 CFR 5001.504.

[54] Refer to 7 CFR 5001.502.

- Annually—120 days after the borrower's fiscal year-end—provide financial statements and analysis.[55]
- If the loan is sold on the secondary market (provide USDA with copy of executed Form RD 5001-6, "Assignment Guarantee Agreement").[56]
- Whenever there is a downgrade in the lender's loan classification of any guaranteed loan.[57]
- Whenever the borrower is 30 days past due (provide USDA with a copy of executed Form RD 5001-8, "Guaranteed Loan Borrower Default Status").[58]
- Whenever the lender becomes aware that the borrower is in violation of any loan covenant or security agreement.

The USDA's prior written concurrence may be needed for the following activities:

- Advancement of additional loans to the borrower (even if they are unguaranteed loans).[59]
- Subordination of lien position.[60]
- Alteration or modification of any loan instruments.[61]
- Release of collateral.[62]
- Restructuring of rates, term, or debt repayment.[63]
- Release of any borrower or guarantor from liability.[64]
- Certain protective advance to preserve and protect collateral.[65]
- Any liquidation action.[66]

Default by Borrower

When considering options, the prospects for providing a permanent cure without adversely affecting the risk to the USDA and the lender are the B&I program's paramount objectives.

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[55] Refer to 7 CFR 5001.504.

[56] Refer to 7 CFR 5001.408.

[57] Refer to 7 CFR 5001.502(a)(3).

[58] Refer to 7 CFR 5001.502(a)(3).

[59] Refer to 7 CFR 5001.512.

[60] Refer to 7 CFR 5001.512.

[61] Refer to 7 CFR 5001.459.

[62] Refer to 7 CFR 5001.505.

[63] Refer to 7 CFR 5001.515(b).

[64] Refer to 7 CFR 506(d).

[65] Refer to 7 CFR 5001.516.

[66] Refer to 7 CFR 5001.517.

In the event of default or third-party action that the borrower cannot or will not cure or eliminate within a reasonable period, liquidation may be considered. Instructions for loan liquidation are included in the OneRD Guarantee Program Regulations (refer to 7 CFR 5001.517). If the lender concludes that liquidation is necessary, USDA's concurrence is required. Within 30 days after a decision to liquidate, the lender must submit to the USDA its proposed method of liquidation in writing. Upon approval by the USDA of the liquidation plan, the lender commences liquidation.

V. What Are the Program Risks?

The B&I program generally provides an 80 percent federal guarantee on business loans. Table 2 illustrates how the B&I program decreases a bank's risk exposure when lending to businesses. If a loan defaults, the bank, after the liquidation of collateral, receives from the USDA the remaining unpaid principal and accrued interest of the guaranteed portion of the loan on a pro rata basis.[67] In this hypothetical example, a $5 million loan with an 80 percent guarantee exposes the bank to a maximum of 20 percent of the loss on the loan ($1 million).

Table 2: Hypothetical Small Business Expansion Plan

Total project cost	$5 million
Loan amount	$5 million
B&I guaranteed amount (80 percent)	$4 million
Unguaranteed amount	$1 million
Loan interest rate	5 percent
Guaranteed portion sold at premium	6 percent
Lender servicing spread	1 percent
Premium (6% of $4 million)	$240,000
Servicing spread on the guaranteed portion (1% of $4 million)	$40,000
Lender's interest income on the unguaranteed portion (5% of $1 million)	$50,000
Revenue in Year 1 of the loan	$330,000

Source: OCC analysis hypothetical example.

Although the loan guarantee significantly reduces credit risk by guaranteeing 80 percent of a loan, the lender remains exposed to credit risk on the unguaranteed portion. Lenders should exercise appropriate due diligence and maintain appropriate controls and ongoing monitoring to protect against this credit risk and the operational risk associated with the administration of this program. Banks should underwrite loans made under these programs using sound underwriting. Lenders using the B&I program may use their own credit review and financial analysis, so long as they otherwise meet the USDA requirements.

Lenders should also take appropriate measures for the monitoring and prevention of fraud and misrepresentation. This includes executing necessary verification procedures, including

[67] Refer to 7 CFR 5001.521.

verification of borrower equity and business site inspections. Such measures are necessary to comply with program requirements and are consistent with prudent lending practices.

Failure to maintain appropriate processes for administering loans in accordance with USDA requirements can increase operational, compliance, and credit risks. Banks must comply with the operational requirements of the B&I program to ensure that guarantees are honored in the case of defaults. Failure to comply with the program's regulations can result in guarantee claims being partially or fully denied. For example, the USDA must be notified anytime a borrower is 30 days past due or when a borrower is otherwise in default of covenants in the loan agreement.[68] Ultimately, the adherence to USDA operational requirements can directly affect the integrity of the loan guarantees and, therefore, the lender's credit risk profile. The "Reporting Requirements" section of this report discusses various servicing and reporting requirements in more detail.

Common Mistakes by Lenders Making B&I Program Loans

- The lender failed to disclose a material fact to the RD regarding a guaranteed loan in a timely manner.
- The lender failed to obtain or maintain liens on collateral or protect the collateral securing the guaranteed loan.
- The lender did not service the loan in a manner consistent with prudent lending practices.

Some lenders are apprehensive about whether their loan guarantee claims will be honored if the loans default. Lenders can mitigate this risk by carefully following procedures for documenting and servicing loans. The USDA recommends lenders work closely with their state or area office throughout the process. Table 3, covering fiscal years (FY) 2021-2023, shows loan approvals, loans for which a guarantee was sought, and loans where a guarantee was either partially or fully denied.

Table 3: B&I Guaranteed Loan Program Performance

Number of Loans	FY2021	FY2022	FY2023
Number of loans submitted for the B&I program	414	590	596
Number of loans approved for the B&I Program	369	367	314
Number of loans for which banks sought to claim guarantee	19	15	38
Number of loans for which a guarantee was partially denied	0	1	0
Number of loans for which a guarantee was fully denied	0	0	0

As has been previously discussed, the USDA will typically offer a conditional commitment prior to closing, with the guarantee issued only after specific conditions are met. These conditions often include standard financial requirements (such as executing liens on collateral) but may also include borrower performance conditions. Loans to borrowers starting new businesses or involved in construction activities are most likely to include these performance conditions, as the

[68] Refer to 7 CFR 5001.502(a)(3).

USDA staff involved with the transaction seeks to ensure that the business is viable before issuing the guarantee. Lenders should be aware that failure to meet conditional commitments may result in USDA not issuing the guarantee after the loan was made. Lenders should carefully review the conditions of the guarantee with USDA staff before loan closing to ensure that all parties share the same expectations and comfort level with the terms of the guarantee.

For construction projects, the lender might provide interim construction financing, which would not be guaranteed under the B&I program. Once all conditions are met, the lender would offer permanent financing, which would receive the USDA guarantee under the B&I program.[69] Failure to meet the conditional commitments of the guarantee may cause USDA not to issue the guarantee, even after the interim construction financing was made. The lender can request to receive the loan note guarantee prior to construction. To receive the loan note guarantee prior to construction, the lender must adhere to additional construction monitoring requirements[70] and pay an additional guarantee fee of 0.50 percent.[71]

The borrower contribution to fund the project and the balance sheet equity amount vary depending on the type of project and whether the business is a new or existing business.[72] These examples highlight the minimum borrower contribution and the minimum balance sheet equity for new or existing businesses. The lender should be aware that the balance sheet equity provided to fund the project should be greater than the unguaranteed portion of the loan.

[69] Refer to 7 CFR 5001.121(c).

[70] Refer to 7 CFR 5001.205(e)(2).

[71] Refer to 7 CFR 5001.454(c).

[72] Refer to 7 CFR 5001.105(d).

Table 4: Existing Rural Business—Purchase and Development of Land/Building

Project uses	Dollars
Acquisition of land / building	$1,800,000
Renovations	200,000
Total	**2,000,000**
Financing sources	**Dollars**
Bank Loan	$1,800,000
Borrower Contribution	200,000
Total	**2,000,000**
Balance sheet equity	**Dollars**
Assets	$3,500,000
Liabilities	3,100,000
Equity	**400,000**
USDA / RD Guarantee Amount	**Dollars**
Bank Loan	$1,800,000
Guaranteed Amount	1,440,000
Unguaranteed Amount	**360,000**

Table 4 shows the requirement for an existing business of at least 10 percent borrower contribution in the project, at least 10 percent balance sheet equity, and the USDA Guarantee amount of 80 percent.

Table 5: New Business—Startup Costs, Working Capital, Inventory, and Supplies

Project uses	Dollars
Startup Costs and Working Capital	$1,300,000
Supplies and Inventory	300,000
Total	**1,600,000**
Financing sources	**Dollars**
Bank Loan	$1,200,000
Borrower Contribution	400,000
Total	**1,600,000**
Balance sheet equity	**Dollars**
Assets	$600,000
Liabilities	480,000
Equity	**120,000**
USDA / RD Guarantee Amount	**Dollars**
Bank Loan	$1,200,000
Guaranteed Amount	960,000
Unguaranteed Amount	**240,000**

Table 5 shows the requirement for a new business of at least 25 percent borrower contribution in the project, at least 20 percent balance sheet equity, and the USDA Guarantee amount of 80 percent.

Table 6: New Business—New Building Construction With Guarantee Issued Prior to Project Completion

Project uses	Dollars
Acquisition of Land / Building	$2,300,000
Renovations	500,000
Total	**2,800,000**
Financing sources	**Dollars**
Bank Loan	$2,100,000
Borrower Contribution	700,000
Total	**2,800,000**
Balance sheet equity	**Dollars**
Assets	$800,000
Liabilities	600,000
Equity	**200,000**
USDA / RD Guarantee Amount	**Dollars**
Bank Loan	$2,100,000
Guaranteed Amount	1,680,000
Unguaranteed Amount	**420,000**

Table 6 shows the requirement for a new business constructing a new building of at least 25 percent borrower contribution in the project, at least 25 percent balance sheet equity, and the USDA Guarantee amount of 80 percent.

VI. What Are the Regulatory Considerations?

Legal Lending Limit and Capital Requirements

The federally guaranteed portion of B&I loans may be excluded from the bank's legal lending limit provided certain criteria are met.[73] Banks new to B&I loan guarantees should consider discussing regulatory considerations with the bank's supervisory office or examiner-in-charge prior to executing an agreement with the USDA.

[73] 12 CFR 32.3(c)(4)(ii). To qualify for this exemption from the legal lending limit, the commitment or guarantee must be (1) payable in cash or its equivalent within 60 days after demand for payment is made, and (2) considered unconditional. Loans with government agency guarantees are generally treated as unconditional for legal lending limit purposes if there are no requirements or conditions on the guarantee that extend beyond the bank's control. Banks should review the program contracts as they document the exemption.

The federal guarantee may provide a regulatory capital benefit. The guaranteed portion of business loans in the B&I program may be eligible for preferential risk-based capital charges and thus could help banks reduce funding costs and meet liquidity needs.[74]

Community Reinvestment Act

B&I program loans may receive CRA consideration as either "small business loans," as defined in 12 CFR 25.12(v) (March 29, 2024), or as "community development loans," as defined in 12 CFR 25.12(h) (March 29, 2024), 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 additional information, please visit the OCC's Community Reinvestment Act web resource page or contact the OCC's supervisory office.

Conclusion

The USDA's B&I program is designed to help participating lenders and borrowers improve the economic climate and environment in rural communities. Using the USDA's B&I program, lenders help improve, develop, and finance business industry employment and improve economic and environmental activity in rural communities. Furthermore, as discussed above, B&I loans have the potential to receive CRA consideration in certain circumstances.

Community Developments Insights reports differ from OCC advisory letters, bulletins, and regulations in that they do not reflect agency policy and should not be considered as regulatory or supervisory guidance. Some of the information used in the preparation of this report was obtained from publicly available sources that are considered reliable and believed to be current as of May 2025. The use of this information does not constitute an endorsement of its accuracy by the OCC. For additional information, contact Community Affairs at CommunityAffairs@occ.treas.gov.

[74] 12 CFR 3.32(a)(1). Typically, a bank may assign a 20 percent risk weight to the portion of an exposure that is conditionally guaranteed by USDA via the B&I program.