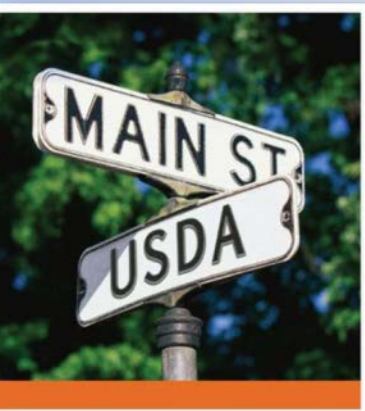




# Welcome

## USDA Guaranteed Programs: Increasing Access to Capital in Rural America

July 15, 2015



Backing the  
Business of  
Rural America



# Local Contacts

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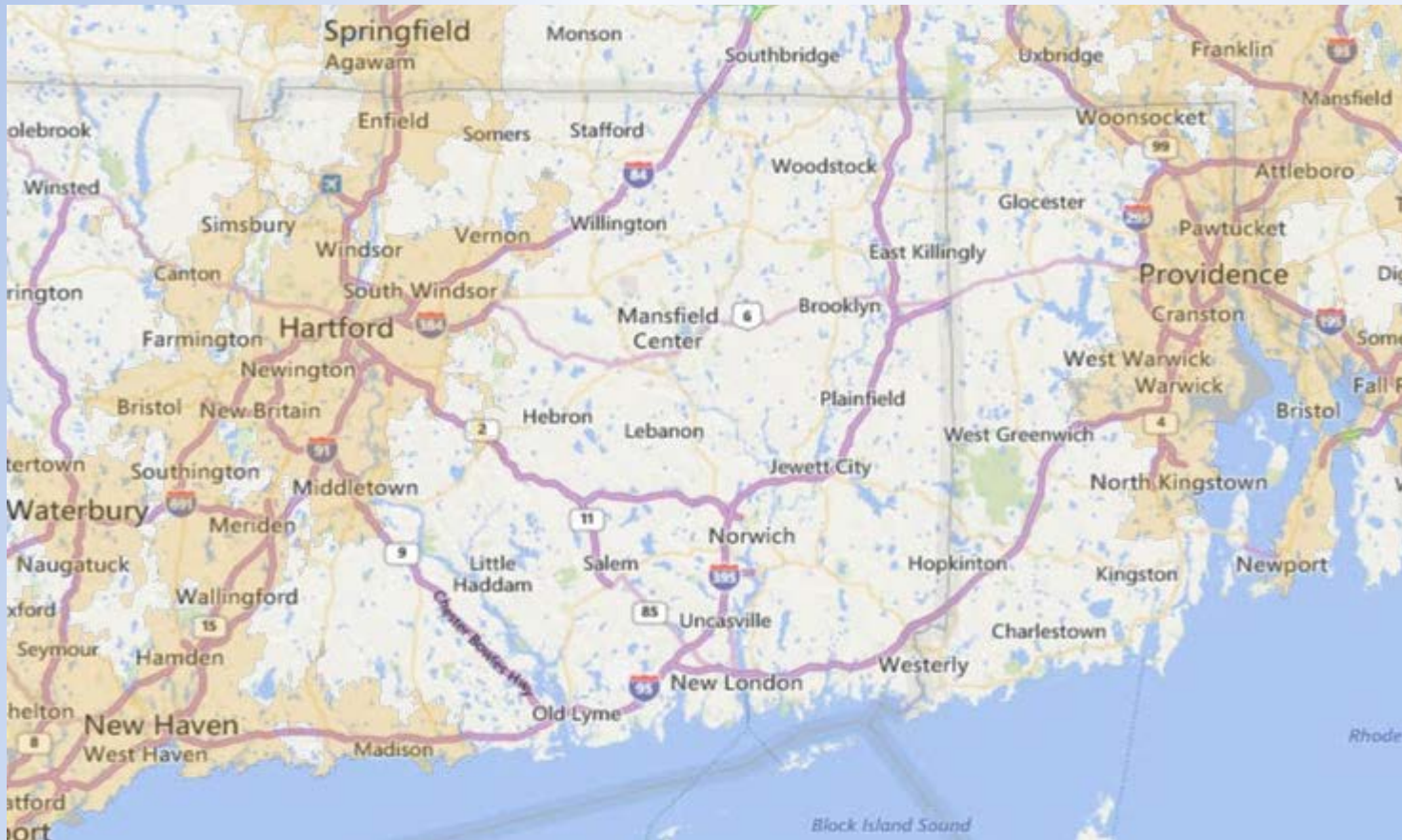
United States Department of Agriculture

## Rural Energy for America Program (REAP)

# Rural Energy for America Program Guaranteed Loan



# Business & Energy Location Eligibility Map



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

# Rural Energy For America Program

## Eligible Borrowers:

1. Agricultural producers
2. Rural small businesses

## Eligible Projects:

1. Purchase renewable energy systems
2. Implement efficiency improvements



## ✓ LOAN SIZE

- Minimum Loan Amount: \$5,000
- Maximum Loan Amount: \$25,000,000  
(Up to 75% of project cost)

## ✓ GUARANTEE

- 85% for loans \$600,000 or less.
- 80% for loans over \$600,000 up to \$5 Million
- 70% for loans over \$5 Million up to \$10 Million
- 60% for loans over \$10 Million



## ✓ MAXIMUM TERM LIMITS

- Working Capital – 7 Years
- Machinery & Equipment – 15 Years (*or useful life*)
- Real Estate – 30 Years



## ✓ OTHER FUNDS REQUIRED

- 25% of project costs – sub debt, equity, other

## ✓ INTEREST RATE

- Fixed or Variable; if variable can be adjusted quarterly
- Negotiated between lender and borrower



## CLIENT BENEFITS

- ✓ Lower operating costs
- ✓ Leverage utility incentives
- ✓ Longer Term – lower payment



- ✓ Access tax incentives
- ✓ Competitive Interest Rates
- ✓ USDA review of technology





United States Department of Agriculture



# Business & Industry Guaranteed Loan Program

# Funding Levels

What do states have direct control of:

- Connecticut \$7.3 million
- Rhode Island \$5.5 million
- Massachusetts \$7.9 million

Additional \$358 million national reserve helps states with smaller allocations fund more or larger projects.

# B&I Guaranteed Loan Program

- Purpose is to improve, develop, or finance business, in rural communities
- Bolster private credit structure through the guarantee of quality loans that will provide lasting community benefits
- Not intended for marginal or substandard loans or relief for lenders having such loans

# Loan Purposes

- Real estate purchase & improvements
- Machinery and equipment
- Working capital
- Debt refinancing
  - Existing lender debt – up to 49% of new loan
  - 100% of federally guaranteed debt – even existing lender.
- Ag Production – limitations



# Fees, Loan Limits and Percentage of Guarantee

## ➤ Fees

- Initial Guarantee Fee – 3 percent
  - 2 percent – “High Priority” projects
- Annual Renewal Fee – .5%
- Fee can be included in loan subject to collateral

## ➤ Loan Limits

- \$10 Million without Administrator exception
- \$25 Million to any one borrower
- \$40 Million for rural cooperative organizations

## ➤ Percent of Guarantee Limits

- 80 Percent for loans less than \$5 million
- 70 Percent for loans between \$5 and \$10 million
- 60 Percent for loans over \$10 million

# Loan Structure

- Negotiated by the lender and borrower and approved by the Agency
- Fixed/Variable/Combination Interest Rates
- Maximum terms
  - Real estate - 30 years
  - Machinery and equipment - 15 years or useful life
  - Working capital - 7 years
- No balloon payments
- May hold, participate or sell to manage risk



A photograph of a city street scene. A woman in a white sweater and blue jeans is walking on a brick-paved sidewalk, carrying a brown bag. In the foreground, there is a green metal bench. The background shows a street with several cars (white, red, and white) parked or driving, and multi-story brick buildings under a clear sky. The text "Community Facilities" is overlaid in the center of the image.

# Community Facilities

# Types of Facilities

- Hospitals
- Nursing Homes
- Schools
- Libraries
- Municipal Buildings
- College Dormitory
- Community Centers





# Eligible Communities

- Public Bodies

Public Bodies include counties, cities, towns, boroughs, special authority districts, and other local units of government

- Nonprofits

Organizations that operate on a not for profit basis

- Indian Tribes

Indian Tribes can be federally or state recognized

# Guaranteed Loan Highlights

- Loan guarantees up to 90%. Rates and terms will vary
- No limit on dollar amount – up to 100% of construction cost
- Eligible rural areas are cities, towns, or unincorporated areas that have populations of 20,000 inhabitants or less
- Eligible lenders are federal and state chartered banks, thrifts, Farm Credit System, insurance companies regulated by a State or National insurance regulatory agency. Lenders must be subject to credit examination by state or federal bank regulators
- One-percent guarantee fee (one-time only)



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**GLOBAL BANK BENEFITS  
AND  
CASE STUDIES**

## GUARANTEE BENEFITS TO BANK

- ✓ Local Approval - \$7.5 Million
  - Insures consistency
- ✓ Mitigate Risk
  - Guarantee is a “loss” guarantee
- ✓ Increase Capital and Improve Bank Liquidity
  - Sale of Loan Note Guarantee on Secondary Market
- ✓ Increase Bank Returns
  - Premiums over par
  - Receive servicing fee from Secondary holder



- ✓ Cross-sell to existing customer base
  - Full small business spectrum – not just agriculture
- ✓ Readily available funds – monthly funding
  - Rolling application cycle
- ✓ May support Community Reinvestment Act requirements
- ✓ Structure: Bank policy, bank forms
  - Lender sets rate index
  - Fixed, Quarterly, Annual and Multi-Year rates
- ✓ Construction: Standard bank practices



## SECONDARY MARKET

- No mandatory fiscal agent
- Mitigate rate risk for fixed rate loans
- Sell all or part of the guaranteed portion
- Obtain premiums based on rates/terms
- Earn servicing fees
- Holders may reassign the unpaid guaranteed portion in the complete block it was sold - it cannot be subdivided or further split

## LOAN PARTICIPATION

- Banks may sell participation(s) in a loan under its customary practices
  - Must retain title to the note and collateral interest
  - Required to hold a minimum of 5 percent of the total loan. This amount must be of the unguaranteed portion and cannot be participated





# CASE STUDY: Business & Industry Loan Guarantee

Lender: Chelsea Groton Bank  
 Product: Business Guarantee  
 Guarantee: 80% of \$5,000,000  
 Collateral: Parity First Lien  
 Purpose: Infrastructure - access road & utilities.



Thames Edge at Fairview: \$14 million  
 Phase I construction of 23-residential units, complete with community center and new access road, to establish a Retirement Village at the Fairview Home site in Groton, CT.

# **Thames Edge at Fairview** **B&I Guarantee “Highlights”**

- Facilitated funding for substantial “infrastructure” (new access road) portion of project.
- 30-year term/amortization longer than conventional permanent financing.
- 5-year attractive variable rate tied to FHLBB classic index.

# Thames Edge at Fairview





# CASE STUDY: Rural Energy for America Loan Guarantee

Lender: First Niagra

Product: REAP Guaranteed Loan \$408,000

Percent of USDA Guaranty 85%

Term: 20 years with a five year fixed rate

Personal Guarantees by the Principals

15% Equity Requirement

# CASE STUDY: Rural Energy for America Loan Guarantee



Client: Logee's Greenhouses  
Location: Danielson, CT  
Project Type: Energy Efficiency Project

Local business with over 100 years in the community. Installation of gutter-connected greenhouses, high-efficiency irrigation and timed ventilation systems were implemented. Project resulted in monthly cost savings of approximately \$4,100.

# CASE STUDY: Business & Industry with FHLB Community Development Advance Program



Client: Vermont Milk Company

Status: Start-up

Challenge: Union Bank was seeking a means to:

1. Fixed rate for start-up business
2. Eliminate rate risk to bank
3. Mitigate industry risk
4. Mitigate loss risk on start-up





# CREDIT PARTNERSHIPS

Lender: Union Bank – Morrisville, Vermont

Products: USDA Rural Development – Business Guarantee  
Federal Home Loan Bank – Community  
Development Advance Program

Partner: VT Economic Development Authority

Direct loan – equipment

Participation Purchase - \$100,000



# LET'S EXAMINE THE DEAL

## *Sources and Uses of Funding*

<b>Real Estate Acquisition</b>	<b>\$565,000</b>	<b>Union Bank w/RD Gntee</b>	<b>\$400,000</b>
<b>Equipment</b>	<b>\$644,924</b>	<b>VEDA Sub-5 w/RD Gntee</b>	<b>\$465,424</b>
<b>Working Capital</b>	<b>\$250,000</b>	<b>(Indirect) USDA VADG</b>	<b>\$100,000</b>
<b>Start-up costs</b>	<b>\$255,000</b>	<b>NVDA T/A Grant</b>	<b>\$25,000</b>
		<b>Equity</b>	<b>\$724,500</b>
		<b>Pasturizer Lease</b>	<b>\$100,000</b>
<b>Total:</b>	<b>\$1,714,924</b>		<b>\$1,714,924</b>



# Transaction Benefits

## Lender

- Zero rate risk
- Achieved rate margin
- \$20,000 net risk after participation w/ State partner
  - \$60K non-gntd
  - \$40K gntd

## Borrower

- Cash flow stability
- 10 Yr fixed / 20Yr term
- 7.49% blended fixed rate (Prime 8.25%)



# CASE STUDY: Community Facility Loan Guarantee

Lender: Savings Institute

Product: Community Facility Loan Guarantee

Loan Amount: \$1,500,000

Total Project Cost \$3,856,820

Guarantee Percentage: 90% issued after construction.

Collateral: Second mortgage.

# CASE STUDY: Community Facility Loan Guarantee



Client: United Services, Inc.

Location: Dayville, CT

Project Type: Non-profit mental health services

United Services provides social and mental health related services to the residents of Northeast CT.

Savings Institute, Rural Development and the State of Connecticut joined in 2008 to finance a new 12,500 Sq.Ft. outpatient facility. United Services employs 280 professionals and paraprofessionals through this facility.



# CONCLUSION

Questions