



Business & Industry Loan Guarantees

Benefits to Lenders & Secondary Market Participants

Our Business and Industry (B&I) Guaranteed Loan Program helps credit-worthy rural businesses obtain needed credit for most any legal business purpose. The intent of the program is to create or save jobs in rural America, but B&I loans also benefit lenders and secondary market participants.

Lenders make, service, and collect the loans. A holder is a person or entity, other than the lender, that owns all or part of the guaranteed portion of the loan with no servicing responsibilities.

What are the benefits to the lender?

- **Legal Lending Limits**

The B&I program can help community and mid-size banks with lower legal lending limits expand their commercial lending. The Federally guaranteed portion of the B&I loan does not count toward a bank's legal lending limit, enabling lenders to make larger loans than they could otherwise.

- **Capital Requirements**

Federally guaranteed loans expose the lender to less risk than unguaranteed loans and have the potential to reduce the lender's capital reserve requirement.

- **Community Reinvestment Act (CRA)**

B&I loans have the potential to receive CRA consideration, provided that loans to small businesses or for community development meet CRA geographic requirements.

- **Mitigating Risk**

The B&I program generally provides a 60-80 percent Federal guarantee against loss depending on the size of the loan. If there is a loss after liquidating collateral, the Agency will reimburse the lender on a pro-rata basis, based on the percentage of guarantee.

- **New Business Development Opportunities**

Lenders can offer eligible applicants B&I guaranteed loans at generally better rates and terms than a conventional loan. Businesses receiving B&I loans may be eligible for additional loans and may open other accounts with lenders, such as checking and payroll accounts, establishing full banking relationships.

- **Profitability**

By minimizing credit risk and expanding business loan origination, lenders can earn additional fees and interest. Lenders can sell or participate all but 5 percent of the total B&I loan. The 5 percent retained must be part of the unguaranteed portion of the loan and maintained in the lender's portfolio.

- **What are the benefits to the holder?**

- **Projects Must Be Credit-Worthy**

The guarantee is not used for marginal or substandard loans or to relieve lenders with such loans. Lenders primarily determine credit quality, analyze all credit factors associated with each proposed loan, and determine repayment ability. Loans must be closed and not in default prior to issuance of the guarantee.

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• Varied Loan Features

Loan terms are negotiated between the lender and borrower subject to program maximums that vary with the purpose of the loan and may be blended. Interest rates are also negotiated and may be fixed, variable, or a combination of both. Prepayment penalties are allowed.

• No Servicing Responsibilities

Lenders are responsible for servicing the entire B&I loan (both guaranteed and unguaranteed portions) for the life of the loan. Holders benefit from ownership and have no servicing responsibilities, but must approve changes in terms or rates outside of regularly scheduled adjustments.

• Right to Make Demand

Holders assume all the rights of the lender under the Loan Note Guarantee, to the extent of the portion purchased, when a guaranteed portion of a loan is sold to them. Holders directly enforce the guarantee and right to repurchase.

• Repurchase by Lender or Agency

When a borrower is in default for over 60 days, or the lender fails to remit to the holder its pro-rata share of any payment within 30 days of receipt, the lender has the option to repurchase the unpaid guaranteed portion of the loan within 30 days of written demand by the holder.

If the lender declines, the Agency will purchase the holder's unpaid principal balance of the guaranteed portion, and accrued interest, within 30 days of written demand.

• Full Faith and Credit

The guarantee is supported by the full faith and credit of the United States and is incontestable, except in cases of fraud or misrepresentation. In the event of default, the Agency will guarantee payment to holders for 100 percent of any loss on the guaranteed portion of the loan and interest due.

Is there an active B&I secondary market?

Yes. There is an active secondary market for the guaranteed portion of B&I loans. Many lenders sell loans on the secondary market directly to investors, negotiating servicing spreads and selling at a premium.

How do we learn more?

Visit our [Business & Industry Guaranteed Loan Program website](#) or contact your USDA Rural Development [local office](#).

NOTE: Because citations and other information may be subject to change please always consult the program instructions listed in the section above titled "What Law Governs this Program?" You may also contact [your local office](#) for assistance. You will find additional forms, resources, and program information at www.rd.usda.gov. *USDA is an equal opportunity provider, employer, and lender.*