

B&I CARES Act Program Webinar for External Stakeholders

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Mark Brodziski

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Mark Brodziski

So Good afternoon. My name is Mark Brodziski. I'm the Acting Administrator for the Rural Business Cooperative Service here with USDA. I welcome you this afternoon to our webinar on the B&I CARES Act program. We're glad to have you join us. Just kind of monitoring our webinar. We see we still have a few of the audience connecting, but we're going to roll with some introduction comments, and have them catch up as we go forward. To kick off the agenda today, what I like to do is first of all, introduce Bette Brand. Bette serves as the deputy administrator, Deputy Under Secretary for USDA Rural Development mission area. Bette came to us, to USDA, after 35 years' experience with the Farm Credit of Virginia where she served most recently as a chief advocate for agricultural industry, rural businesses and supporting agricultural producers and businesses at the state and national level. Since her arrival here with USDA in 2018, Bette has focused on USDA Rural Development's mission of supporting rural America with a commitment to improving the economy and quality of life for rural communities, along with increasing rural communities' access to capital, and a strong focus on effective and efficient customer service. In her short term here with USDA over the couple years, Bette has led the department initiatives, establishing a memorandum of understanding, strengthening engagement with the Department of Energy and with the Small Business Administration. Of these collaborations between departments, it enables greater synergies between our government agencies. It really increased our successful outcomes of federal programs and services. Bette continues to lead our mission critical priorities and strategies, focusing on effective delivery of USDA Rural Development programs and our services to rural communities. For some opening remarks and introductions of our B&I CARES Act program Bette, I'll turn it over to you. Thank you.

Bette Brand

Okay, well, thank you so much, Mark. And thank you all for joining us today. It is a real pleasure to be here on the call with you. And I, and I must say that this it's an incredible team here at USDA Rural Development, and this program and standing it up so quickly. And now the outreach that's being done to make sure that our rural communities, our producers, and customers and stakeholders know about this program has really, the team has been remarkable in getting it taken care of, making it available and communicating to everyone to be able to be sure that everyone has access. You know, not only do we have lenders on this call, and producers, but also

community leaders participating today, and I wish we could be together in person. However, we're not able to do that for a number of reasons, but it's still great to be on the call and communicating. In the meantime, technology does enable us to get the job done. And just want you to know that we are getting it done, not just in this program, but other areas, so that we can really help make an impact and improve the prosperity of rural communities. I will say that there are over 700 people on the call so far today, I think there are close to 1000 that are registered. And it's just, it's so great to see so many different groups across the country are joining. And in addition to lenders and, and producers on the call, it's great to see that there are state and local governments, nonprofits, private organizations and businesses, all joining us today to learn more about this program. So, and I want to let you know, too, that this is about the sixth or seventh webinar that we have hosted. And we have one more at least tomorrow but thank you for participating and allowing us the opportunity to share with you the information about the program. You know, if you've worked with us before in Rural Development and are part of the Rural Development family, you're probably familiar with how we support the economy and quality of life in America's small towns and farming communities. But some of you on the call, maybe a new lender, maybe a new organization, maybe a producer because it's not typical for us to be able to finance producer loans and Mark and the team will get into more explanation on that. You may be new to our programs, and we're excited to be able to share a little bit about what we do, and just want to give you a really special welcome and a quick 30,000-foot view of the work that we do here at Rural Development.

Bette Brand

Our mission is to help improve the economy and the quality of life in rural America through financial support and investment and business and economic development, community facilities, housing, and infrastructure and infrastructure includes water, electricity and broadband. So, the new loan guarantees under the B&I CARES Act directly supports this mission. As Secretary Perdue said in his announcement a couple, a little more than a week ago, that providing this much needed capital in these unprecedented times is a cornerstone of our commitment to "all" aspects of the rural economy. On behalf of the Rural Development team, I want you to know that we work tirelessly beside you to put this critical funding to work as soon as possible. Together, this work will result in over a billion dollars in loan guarantees leveraged to positively impact our rural economy. I know how much your communities need this help. Most of us who work for Rural Development either live in or grew up in the areas we support. We take our work personally, and it means a lot to us. This is a very challenging time for our country, and your federal government has taken unprecedented steps to help Americans through this economic devastation of the COVID 19 pandemic. The CARES Act did not forget rural America, and I commend Congress for channeling this critical support through our office. It's what we are made to do. So now I'll turn things back to Kate to dig into the details. And thank you for having me here today.

Kate

Thank you, Bette. And we are glad to have each of you joining us today. A couple of housekeeping things. You've entered this webinar with all participant audio lines muted. We encourage you to ask questions throughout the webinar using the chat box located at the bottom right of your screen. We will address those questions during the closing Q&A session. Any questions that we're not able to address today will be answered through email follow up. Within 48 hours, you will receive an email with the link to access both the webinar recording and the PowerPoint. Thank you again for taking time to join us, and back to you now, Mark.

Mark Brodziski

Thank you, Kate. I think that was a great welcome and opening. I'll reflect on a few of Bette's comments just in the sense of framing our agenda today. Again, this program that we're talking about today is the Business and Industry CARES Act program. The Business and Industry now what happens, it's called a suite of programs. We have our standard and our regular program, which we're simply going to refer to as the B&I program. And then now the second being that we'll refer to as the B&I CARES Act program. That's going to be our focus today. That is simply a couple of programs now within the suite of programs within the Rural Business Cooperative Service. At the very end, we're going to provide you a couple of resources, some web links, and other information. If you're interested in other programs and other activities that Bette may have mentioned, across other economic development and supporting programs, infrastructure programs and whatnot, feel free to, of course, to check in on our links on our websites. And we'll provide you some resources as to how to connect to our field office structure as we roll through. But again, today we're going to focus on the Business and Industry CARES Act program. We're going to start off with just a couple of comments as it relates to the B&I general program because the two programs are related. The B&I CARES Act program has really stood up on the foundation of the B&I program. So, we're going to relate to the two a little bit as we walk through this. Most of our conversation today is going to be focused more of at the business level, so businesses and ag producers. We know we have some lenders and bankers on the call. The program is a Guaranteed Loan Program. Our guarantees are guarantees of commercial loans. So obviously, the applicant or the client to us is the lender. Also, lenders if you have more questions around the actual loan side, a little bit more of the provisions. We do have a lender webinar scheduled for tomorrow, and a couple that are already recorded. So, we are also available to engage further in that discussion. But today we're going to try to keep a little bit more of a business level discussion kind of rolling forward.

Mark Brodziski

A quick overview of the B&I program. So, this is again, the standard normal traditional program. The program now is almost 50 years old starting in the early 70s. The program typically would focus on guarantees of commercial loans for longer term loans such as real estate, real estate purposes, buildings and improvements, maybe equipment and machinery and maybe have some components for operating expenses but generally the loans would be longer term or fixed asset type loans. The B&I CARES Act program is not going to focus on those activities, it's going to focus solely on working capital. So basically, providing a guarantee on a loan that's made with loan proceeds being used for operating expenses and working capital purposes. And we'll drill into a little bit more detail as to what we mean by that in other qualifying purposes and provisions of the program. Again, the general B&I program, and this also applies for the B&I CARES Act program is available, really to any ownership structure, any legal ownership structure that can operate a business or an enterprise. Most of the clients within the Business and Industry program are for profit businesses, either organized as sole proprietors, partnerships, LLCs, or other corporations. We could even include loans to a publicly traded company. We do not have size restrictions; it could be any and all sizes of businesses and business activities. Nonprofit organizations, or public bodies are also eligible if they operate an enterprise. And by that we mean it could be something like a health care facility, an educational facility, or other services that basically generate revenues needed to pay for service. So those types of entities are also eligible for the B&I program, along with cooperatives. And within the B&I program,

we refer to Ag producers as businesses, as a rural business. So, this list doesn't state an Ag producer, but an Ag producer is eligible under the for-profit business structure.

Mark Brodziski

And I missed my other slide somewhere, here we are, eligible lenders. So again, our program offers a guarantee on a loan made by a commercial lender, in this program lenders that are basically banks that have federal or state charter, savings and loans, farm credit system banks and credit unions. Basically, institutions that are under some type of a supervision or oversight of a federal or state agency are automatically eligible lenders in the program. Basically, what that means is they do not need to submit an application to become qualified first. They simply need to submit an application on behalf of their borrower for the program, we will collect the information we need from the lender on the lender perspective as we roll through that application. So, in reality, what that means is that while we have a large portfolio of lenders already active in the B&I program, for the B&I CARES Act program, any lender that a business or an Ag producer currently works with is likely eligible for the program. So, we highly encourage, if you're interested in the program, working with your lender, if your lender is not familiar with the program, introduce them to us and the program and will help them through the application process and get them up to speed on the program.

Mark Brodziski

A couple of focusing then on the actual B&I CARES Act provisions itself. What this slide is going to, let me back up one, sorry, clicking a little too fast here. So, the B&I CARES Act program was stood up, created by the CARES Act, in March, mid-March. The act funded the program with 20 million of budget authority that supports about a billion dollars in lending authority. So, the program will have the capacity to guarantee about a total of a billion dollars in lending, or the program will be available not to exceed the end of September in 2021. However, funds could be utilized prior to that, but the maximum life of the program is September 30, 2021. We published some rules regarding the program on May 22, a week and a half ago, along with a notice which opens the application process. If you're interested in seeing those documents, we have that on our webpage, and we'll provide you the links to that at the end of the program. A couple of highlights on the program. Now this slide shows seven bullets that really highlight the main differences between the B&I CARES Act program and our regular B&I program. As we walk through this, we'll try to reflect a little bit broader on the B&I program, also, for those of you that aren't familiar with the program, but the B&I CARES Act program as I stated earlier, the use of the loan funds must be for working capital purposes. And we'll provide a bit more detail on that. But in short, it's really anything that would typically qualify as an operating expense for a business. It would also include principal payments for any outstanding loans, along with costs associated with recovering from the pandemic. And again, we'll go into a little bit more detail with that. For the lenders out there, although the loan has a 90% guarantee. So, we'll offer a 90% guarantee on the face amount of the loan. We do charge a 2% guarantee fee. And we also have a renewal fee that will show you a little bit later here. But in essence, what the what the guarantee does is it guarantees the lender of loss, it basically ensures the lender against loss of 90% of that loan amount.

Mark Brodziski

Again, the program does expand its eligible purposes. Typically, the Business and Industry program, it cannot finance Ag production as a standalone business activity. However, the B&I Cares Act program extended that to include agricultural production as a sole business purpose. So, within the B&I Cares Act program, an agriculture producer could apply to the lender, and that lender obtain a guarantee under the B&I CARES Act program when the loan proceeds are being used for working capital or including working capital for Ag production. The terms of the working capital loan are not to exceed 10 years of repayment terms, that's a little bit longer than what we typically would do for a working capital loan. Our standard program limits repayment terms to seven years. But this B&I program extends up to 10. It could include up to three years of principal deferral, and then seven years of repayment of principal and interest. We do have some, some capital and equity requirements. Mainly this is a test or some information that the lender would help you qualify for. We'll show you a few highlights of that. We're not going to get into a lot of detail there here. And we also have some collateral requirements. Of course, loan security, again we'll provide an overview for your insight as to the program requirements. We're going to use references to maximum loan in a couple of different ways. This slide shows a maximum loan amount of 25 million. That's one of our absolutes but we have a couple of other tests that we need to look at, as to at the actual borrower level as to the amount they could qualify for, for working capital purposes. But just keep in mind that the absolute max is 25 million of a loan amount. And again, for the lenders in the room, the B&I CARES Act provides a 90% guarantee on the loan, we do have a 2% guarantee fee, that's a one-time fee. Paid at the loan origination when we issue the guarantee. And we also charge a one half of 1%. So, 50 basis points renewal fee. That's an annual fee charged based on the unpaid principal balance as of 12/31 of that year, and those fees, that renewal fee then is due in January the following here. Okay, again, just a couple highlights here. The B&I CARES Act eligibility is, we, again refer back to our regulations quite frequently. I'll provide you some links for that as we wrap up the presentation. But again, all eligible borrowers that are eligible for the B&I program are eligible for the B&I CARES Act. We do consider Ag producers as a business, so eligible as a rural business. Add on to the B&I CARES Act is that the business must have been in operation on February 15 of 2020. Also, the program cannot finance a new startup or a business that was not operating as of mid-February. Okay. With that I'm going to turn over to David, David Chestnut, is our Branch Chief, really leading and sponsoring kind of the paper side of this, is standing up the provisions, the guidance, working with our field team in understanding the program. He's going to walk through the provisions of the program as we roll forward. So, David, I'll turn it over to you.

David Chestnut

Very good. Thank you, Mark. And thank you very much for everyone joining us we've, we're now over 800 people in our audience. And we certainly wanted to get this message out as broadly as possible. Just to go over just a little bit of what Mark talked about, basically any legal entity is an eligible borrower under the B&I CARES Act program. I do have to say, though, that our Rural Development mission is to serve rural communities. So, there is a threshold that the business must be located in a rural area, that rural area is generally defined as an area not located in an, in a city with a population of 50,000 or greater or an urbanized area. And if you have questions on the rural area aspect of this program, we do have a, basically, a map finder on our website that you can check if you feel that you are close to an urbanized area that you may or may not be eligible for Rural Development programs. We encourage you to go to that website. But if you're out in the middle of Wyoming, I would assume that you very much can consider yourself rural.

David Chestnut

Go over a couple things. Again, as Mark stated, these B&I CARES Act program loans are only for working capital. The purpose of the program and the loan proceeds must be used to cover the cost of a business to prevent, prepare and respond to the Coronavirus pandemic. So, we want you to look at essentially where your business is now, where you're going to end up in the future as far as getting back into business as the normal or the new normal as to where it is. So, we want these funds to supplement activities that you're currently undergoing to recover from the pandemic. Loans for working capital as Mark mentioned, we in the B&I regular program, don't get into independent agricultural production. But independent agricultural production working capital funds are eligible under the B&I CARES Act program. And the codicil about an exception is they are eligible for this program if they are not eligible for the Farm Service Agency, which is our sister agency, under their Guaranteed Loan authority, or is otherwise ineligible for an FSA loan to... As an example, the FSA currently has a loan limit of \$1.776 million to any agricultural producer. If an agricultural producer needs working capital needs of \$2 million, for example, we know that, that loan is not eligible for the FSA program so they would come to the B&I CARES Act program into our lenders. We do not restrict anyone from going to FSA. If you have a great working relationship with FSA, we encourage you to continue that. But actually, going to FSA first or in conjunction with the B&I CARES Act program loans, that is not a requirement of that, of our program.

David Chestnut

Eligible uses, working capital expenses. So, this is your wages, your salaries, healthcare benefits, employee benefits, insurances. We also include on this principal and interest payments on any existing loans that the business has, and these are payments that you need during the pandemic recovery to get your business again back to its normal operating standards. We do not however, allow any B&I CARES Act loan proceeds to go to any payments toward owner or stockholder debt, or to any related third-party debts. We do allow payments and loan proceeds that go towards any rent, your mortgage payments, routine maintenance on the building and things of that nature that is a working capital expense. Again, we want to cover a business's working capital costs to respond to and recover from the Coronavirus pandemic. As I mentioned earlier, this is working capital proceeds to get a business from where they are now to full production to continuing to operate as a successful and sustainable business going forward.

David Chestnut

Other eligible uses include taxes, utilities, business inventory. For Ag producers out there, Ag production expenses can be your inventory, your feed, seed, fertilizer, chemicals, livestock, and of course your labor costs of getting through the working capital period from there. We also, Mark mentioned the loan fee. It's 2% guarantee fee of the guaranteed amount, that is an eligible expense that can be included in your B&I CARES Act program loan and loan related expenses That would be if you needed to obtain an appraisal on your collateral, or do anything related to the loan. Those also can be included in the eligible uses of the B&I CARES Act proceeds. Ineligible loan purposes, we do have a list of ineligible proceeds in our regular B&I program, that I have a citation here 4279.117, you know, regulation. There are a variety of ineligible purposes and entity types that we are not allowed to make loans, to, we are not allowed to make any loans for businesses involved in illegal substances. And I would just go out and say that any marijuana dispensary at this point would not be an eligible borrower for the federal government programs. You are not allowed to make any acquisitions of businesses. You are not allowed to make any fixed asset purchases, such as land, building or equipment or other capital expenses. In there, again, this is a

working capital only program. We will allow some debt refinancing but there is a provision that any such debt must be for debts incurred after February 15 of 2020, and also for eligible purposes. So, if there were working capital expenses where you borrowed money after February 15 of 2020, those would be eligible to be refinanced within the B&I CARES Act program.

David Chestnut

Mark talked about maximum loan amount. We do have, and he mentioned, a couple ways that we talked about maximum loan amount. Again, we do have a hard statutory, that any one borrower may not exceed \$25 million in B&I loans, that includes B&I CARES Act program loans as a loan amount. This is the aggregate amount of all B&I loans to one borrower. So that we may have some existing businesses out there that are currently a B&I borrower. The total of any B&I regular program funds and B&I CARES Act program funds cannot exceed \$25 million to any one borrower.

David Chestnut

The B&I CARES Act program loan amount. We want businesses to forecast the amount of funds that they will need to recover from the economic impacts of the Coronavirus pandemic. We're not stating how long this will take because that's a case by case situation for your particular business. It may be a year. It may be shorter or longer but essentially what amount is needed to cover a business's working capital needs until their revenues recover? The business is sustainable and they're able to meet their working capital expenses through their standard and normal revenues. Lenders are there to assist any businesses with this calculation. We need to look at, you know, what revenues are you expected to receive? And what are your working capital expenses while you recover? We fully anticipate that the expenses you need going forward would be reduced over time as your revenues increase with the recovery of the economy.

David Chestnut

To calculate where our maximum loan amount is, there are two calculations that are important. We do a test to see what the maximum amount of the B&I CARES Act program loan would be. This we take as 12 times the borrowers total average monthly working capital expenses. Then we deduct the amount of any SBA loans, SBA PPP loans, the Payroll Protection Act loans or other federal assistance that's been received to cover working capital or any COVID-19 related expenses. In essence, we're not double dipping on any federal programs but we're using this as a calculation to determine the maximum amount eligible for your business under the B&I CARES Act program. But this is not necessarily the amount that you may need to borrow. The second calculation is the most important of these calculations and that's the lower part here, that the loan will be based on a cash flow analysis, and not greater than the amount needed to cure problems caused by the emergency. So, when we calculate that amount, that's the amount we want you to borrow. We do want you to know that we understand that projections aren't always met exactly. So, if a business, if we were to calculate a maximum eligible amount based on the average working capital expenses of the business. You were to make a forecast about what you need, and then you find that you do need additional, if there is room between what you have borrowed from the B&I CARES Act program, and what we've calculated as your maximum eligible, the B&I CARES Act loan amount,

we can do a second loan to get you back through the pandemic. As long as a total doesn't exceed the maximum eligible amount per our average working capital calculation. I want to just kind of show you a chart, you know, just kind of how you would calculate it if a business has, for example \$100,000 in average working capital expenses each month, times 12 is 1.2 million. If they receive \$250,000 SBA PPP loan, then the maximum loan amount for our calculation is \$950,000.

David Chestnut

I'm going to talk a little bit about the loan itself. The loan from your lender, the loan proceeds must be disbursed through multiple draws on an as needed monthly basis. We're not going to determine, you know, what the amount of those monthly draws are. We're not stipulating that they be an exact same amount during the duration of your recovery. As I mentioned before, the amount that you need to supplement your revenues to cover your working capital expenses while you recover should decline over a period of time, but you will negotiate this with your lender as it relates to the multiple draws required. You are not allowed to make a full and complete disbursement of all the loan proceeds at loan closing. We want you to use these on a monthly basis or as needed to recover from the Coronavirus impacts. All loans are set up to have a 10-year maximum repayment term. Generally, in our regular B&I program, the maximum loan term for working capital purposes is seven years. So, we're looking at a 10-year maximum on the B&I CARES Act program loans. We also are allowing deferrals, payment deferrals on B&I CARES Act program loan. We can defer interest payments for up to 12 months from loan origination. We can also defer principal payments on B&I CARES Act program loans for a term up to three years. So in essence, as the business recovers, we're not going to put additional working capital burden on them by requiring payments of principal and interest during the first year and then by the second year the business would be required to pay interest payments on the balance outstanding and then start principal repayment after three years. All loans must be fully amortized by 10 years and we do not allow any balloon payments in our loans. At the time of application, the business should let the lender know and the lender will let the agency know what the loan repayment terms are, including any negotiated payment deferrals requested by the borrower. All of our B&I loans can be either a fixed or a variable rate. The interest rate is negotiated between the lender and the borrower. In the application that the lender submits to the agency, they'll let us know what the interest rate terms are of that particular loan. We do let the lenders know that the interest rate cannot adjust more frequently than quarterly for the term of these loans.

David Chestnut

All of our B&I CARES Act loans must be adequately secured, and the B&I CARES Act loans, businesses must have equity and a positive equity balance in their business. We have a 10% balance sheet equity requirement. So, if you look at your business balance sheet, in essence, you're going to take the total assets minus total liabilities to come to an equity amount. If that equity amount is more than 10% of your business assets, then you've met the equity requirements of the B&I program. So, this is one thing that we do have, we have three different ways to calculate your equity. If you're a lender or you have questions, we can address those on a case by case or business basis. We look at 10% of total fixed assets or contributing 10% or more to the total project costs. So, if your project costs, for example, in the example where there's a million two of working capital need, and you got an SBA PPP loan of 250,000, that can be considered part of contributed capital to the project, and thus meeting the capital and equity requirement of the program. And I think I'm going to turn this over, and I know we've got some

questions in there. And I'm going to turn it over to Aaron Morris, I believe who is in there. I'm sorry, I'm going to turn it over to Mark. Okay, I'm going to go through a couple more slides.

Mark Brodziski

I think before we, Aaron is going to speak to the application process, but before we do that, I thought I'd do is just kind of wrap back through and just highlight some of the comments and provisions that David just gave you to address kind of broadly the types of questions coming through. Again, just as a highlight, the borrower can be any really a legal form of a business structure. So, it could be a sole proprietorship. It could be a partnership, an LLC, an LLP, a corporation, either a C or S Corp, any legal structure is eligible, could be a for profit, could be a nonprofit, could be a public entity to be eligible as long as you're operating some type of an enterprise that generates revenues to repay debt. The type of, or the purpose of that business, we're putting a lot of emphasis on Ag production, Ag producers where Ag production is one eligible purpose. So again, working capital loans to support agricultural production. While we are USDA, we do not solely work on Ag production or agriculture. It could be related to other agribusinesses, processing or servicing if agricultural related, or it could be non-Ag. Other businesses in rural communities also would qualify. It could be related to energy, energy sector, manufacturing, hotels, restaurants, you know any really business service, almost any business service in a rural area is eligible. David mentioned, there are a few types that are not eligible. There are very few mainly it's housing, like rental housing, apartment housing are not eligible for B&I. Golf courses are not eligible for B&I, but generally any other business purpose would be an eligible purpose within the B&I program.

Mark Brodziski

The loan itself, David went through that an application would have to document their need for the funds. And he noted the maximum that a business could borrow is really 12 months of operating and eligible costs, personnel payments and working capital costs. That 12-month figure would assume that the working capital loan is paying 100% for those costs. Hopefully, you know businesses are generating some revenues and some income and will not need to be borrowing hundred percent of working capital costs from month to month, so that the loan amount could be utilized over a period of more than 12 months. So, if a business says, let's say you needed 18 months of some type of support through working capital loans, and maybe it's only, you know, 10% of your cost at the tail end of that. But still, it could be that the loan funds could be drawn over a period of longer than 12 months. It could be a couple months. It could be much longer, depending on the business and your need, again, for the working capital purposes. So, I think that's what I was trying to do is just kind of rephrase, I think some of David's comments to offer some broad perspectives on questions. Why don't we roll through the application process a little bit? And then we'll have I think, Kate and our facilitator will walk through and try to pick up more of the questions that maybe we haven't addressed yet. We're having a lot of questions come in, we're not going to get to all of them, but we'll try to recover at least as much as we can. So, Aaron, I'll turn to you on the application process and some of the resources.

Aaron Morris

Thank you, Mark. My name is Aaron Morris. I'm the Director of our guaranteed lending programs here at USDA's Rural Business Cooperative Service. Now that Mark and David have given you kind of the guide rails to how to, the policies behind the program. Now it's actually time to apply for the B&I CARES Act loan. I just want to remind you all that the lender is the applicant in this program, borrowers are working with lenders, lenders are receiving a loan note guarantee. Lenders can apply through our state offices. The best part I think about Rural Business Cooperative Service is our delivery system and our ability to kind of have a localized delivery system with our 47 different state offices, and the area offices within those state offices, and allow our customers not to have to go far to get customers, to get service through our agency. So those applications will be received through a state office. The agency is going to consider applications on a first come first serve basis. However, funds become limited towards the end of this funding cycle, and the end of the funding cycle is September 30, 2021. We could assign priority to some of those applications as they come in. Those priorities, priority would include criteria that include population, demographics, loan features, whether it's a high impact business investment, or there could be some other administrator priorities that would be assigned at that time. We will make sure that there is ample notice for both lenders and borrowers prior to having to assign priority if funds should become limited. Just one other note is that for the purpose of agricultural production, which is unique purpose for the B&I CARES Act program, we've limited that to half of the total funding that's available, so that's about \$475.5 million. This could change if there is strong demand for agricultural production guarantee loans, and we'll make a notice available on the Federal Register should that change. Lastly, those of you who may already have experience with the B&I program, the answer is, or you may have additional needs beyond working capital. Yes, you can combine a B&I CARES Act loan which is for working capital with a B&I Guaranteed loan program, which is our regular program, if you have additional capital needs for perhaps real estate or other improvements for agribusiness. The one caveat is that if you're going to apply for both, you have to be able to meet the provisions of both programs. David and Mark have outlined provisions but each loan would have to meet the provisions of both programs in order to apply for both. I'm just going to give you a couple of different resources, links and contacts for the program. The actual regulation for it can be found here at this link. And I believe we'll be making this presentation available for you all after the webinar. But here's the link to the regulation as well as the notice that was published in the Federal Register announcing the B&I CARES Act program. So lastly, for any other information on all of our programs, or just the B&I CARES Act program or the business programs, you can visit our website at rd.usda.gov. As I mentioned earlier, our delivery system, the network of 47 different state offices, here's the website to those state offices. You can find contact information for each state. Also, USDA's Coronavirus response page, please visit that as well if you need additional information beyond what we're offering here at USDA Rural Development. If you have any questions beyond this webinar, please feel free to reach out to us. Points of contact are here on this slide. You can reach out to me, Aaron Morris, or you can reach out to David Chestnut as well as you heard from earlier. With that I'll end my remarks, and I'll pass it back over to Kate who will facilitate some Q&A for us to wrap up the webinar. Thank you all.

Kate

Great. Thank you, Aaron. And yes, we do have a lot of questions coming in. So, we'll get started right on them. Is there any potential that these loans will be forgiven?

Mark Brodziski

Okay so this is Mark and I'll try to start answering some questions, and as we need more detail, I'll turn over to David and Aaron. So, they're going to be ready to help out, but for this program does not have debt forgiveness or any provisions for a reduction of principal or interest. Also, the rates and terms are established by the lender already negotiated between the borrower and lender. Generally, with the guarantee, the loan is of lower risk to the lender. So, most lenders will price the interest rate accordingly and offer a little bit better interest rate than they would at a higher risk loan. So, while we don't have forgiveness of the guarantee, it should offer some benefits on an interest rate structure. But again, it's been negotiated between the borrower and the lender.

Kate

Great, thank you. If I am a farmer, how would my regular banker and collateral agreement be handled with a B&I loan?

Mark Brodziski

So again, we strongly recommend that Ag producers and businesses with existing loans, you know, with banks or other lenders work with that lender. If you're interested in a working capital loan, they can work with our office then on a guarantee for that type of activity. In terms of structuring existing loans with a new B&I CARES Act loan, it's really depends on the lender of how they want to structure that. We are able to enable the lender to secure the loan with a junior lien position for the B&I CARES Act program. So we have quite a bit of flexibility about how to structure that but it's really going to come down to the lender themselves, if you have multiple lenders involved then maybe needing to have some business lender agreements, but really, it's up to the lender on how to structure the loan along with existing loans. If for some reason a lender is not interested in the working capital loan but you have other lenders that are, we could work with you a new lender for you and also add that to your, your mix of credit. So, we have quite a bit of flexibility how to structure the B&I Cares Act program.

Kate

Great, can an ethanol plant apply for this B&I loan?

Mark Brodziski

Certainly, it again any business structure and most business purposes in a rural community could be eligible. Processing you know such as ethanol, other manufacturing are eligible for the program. We had some other questions coming in as far as different types of agriculture such as hydroponics or aquaculture. I mean, that's all eligible. So, again, while it's a USDA program, or it does not have to be related to agriculture, but it could be. Okay.

Kate

Can the loans be established and future needs, once approved by USDA, be used for draws against working capital needs?

Mark Brodziski

Absolutely. But David, you want to walk through again a little bit as to establishing need, talking about draws and how that piece of the program would work?

David Chestnut

Yeah, thank you Mark. The B&I CARES Act program is strictly for working capital purposes, as I mentioned, to supplement working capital to get your business back to where it's fully sustainable and profitable. So, the draws can be used only for working capital purposes and they are drawn as your business needs them. You can work that out with your lender, but you may want to forecast, as we say, forecast for at least a year out or how long you think it may take for your business to recover to where you have profitability and cash flow in excess of your expenses and determine what that amount is and then draw as you need it during that term. So, it is a forecast amount. You can work with your lender or come in with some idea of how much money you need, and then forecast out and make draws compliant with your lender and agree to that. I will say also that for lenders out there when draws are made on these loans, they do not need the concurrence of USDA Rural Development, we're allowing, you know, the lenders are in charge of the loan once the loan is made, as far as all servicing provisions, and that includes disbursements. I would say that if, as a borrower, come in with a need, your documented need, you know, I need X amount of dollars because I've got rent, payroll. I've got an insurance premium due. I've got other things that I need assistance with. Again, this is supplemental to hopefully what your revenues are providing to you going forward, but this is a draw note for working capital expenses.

Mark Brodziski

I'll just kind of add to that, if addressing a few questions as relates to need, but if a business received assistance through SBA, either the PPP or the disaster, Economic Disaster loans. Again, those programs also of course support need, but if the business has more of a need for working capital beyond those programs, again it could be solved, it would be eligible for the B&I CARES Act program. Also, we can co-fund projects similarly with FSA, the Farm Service Administration. So, producer eligible for FSA, if the as David mentioned, if the request is for more than what they can provide, or if the producer otherwise is not eligible for FSA, it can come into the B&I CARES Act program. But there may be some needs that are better served by FSA, and you could work with both, FSA for some plans or needs and for the B&I CARES Act program at the same time to help out with needs. Okay.

Kate

Great, thank you. And how quickly can the loan requests be processed?

Mark Brodziski

Aaron, you want to talk a little bit again. Processing and application and how all of that works.

Aaron Morris

Sure. So, the goal, the overarching goal is to get funds into the hands of businesses as quickly as we can. Once a lender gets a completed application to our state office, we are trying to process those applications within five business days. From the time that we received the application to you all being able to get funds through your hands. We're hoping that businesses close within five, I mean, lenders can close these loans within five days.

Kate

Great, thank you. Scrolling up just a little bit here. Trying to make sure we get some that are going to have the highest amount of interest to multiple people. What are the collateral requirements, please?

Mark Brodziski

Again, a loan needs to be fully secured. However, any collateral you know that the property and assets that the business owns can be pledged as collateral. So, it could be equity, as in real estate. It could be equipment or other chattels. It could be inventory, receivables and will all count and be valued as collateral for the loan proceeds. If a lender again, if the collateral, if the property already served as collateral for other loans, if there's equity beyond that loan on the existing loan amount, that equity could serve as collateral for the B&I CARES Act program.

Kate

If a borrower has been forgiven on their PPP loan, does that change how you calculate the eligible loan amount for the B&I CARES loan?

Mark Brodziski

So, if a business that received a PPP loan, that loan amount would be netted out of what they're eligible for, for the maximum amount of the B&I CARES Act. And of course, if they're forgiven, this means they drew the funds and use the funds for payroll or other working capital purposes, you would expect that they would need less on the B&I CARES Act program, but it would count the same, regardless of its forgiven or an outstanding debt in the sense of that it's a loan received from SBA to the PPP program.

Kate

Yeah. And do you have a list of lenders?

Mark Brodziski

Again, on the processing side, Aaron, how would you suggest a business look for a lender in the program?

Aaron Morris

Start local, but no, I would work with our local offices for lenders that are, that frequent the B&I program within that state, small community banks that work with the program. I would start with our local offices.

Mark Brodziski

I would remind folks to work with your lender today, if you have a lender, but if you need to go beyond that lender, then Aaron is definitely correct in the sense of a great approach is to just contact our local office as to who they work with. But in reality, any lender, again, that has some type of a supervision or oversight by a federal or state agency would qualify for the program. If they're not familiar with it, our field office structure is there to help work with lenders to access the program.

Kate

We need to procure additional equipment for the Ag production component of our business as an operating expense for the next 12 months. Am I hearing this loan will not permit that? Thank you.

Mark Brodziski

Right so the B&I CARES Act loan is only for working capital purposes. So, if you need to borrow funds for equipment, other fixed assets. So basically, assets that are either amortized over time, depreciate over time, have paid over time, those types of loan purposes would not qualify for the B&I CARES ACT program. Again, if it's an Ag producer, they may qualify for FSA. We encourage you to look at that. The B&I program, the standard B&I program would be an opportunity for other businesses. The standard B&I program cannot fund or finance production of agriculture as a sole purpose, but it can assist in other business activities, processing, agribusiness and any rural business going forward. But it's correct that the B&I CARES Act is only for working capital purposes.

Kate

Okay, thank you. Can churches apply?

Mark Brodziski

David, you want to address churches and maybe a few other types of entities or purposes that would not be eligible?

David Chestnut

Yeah, any entity that is inherently religious in nature is not an eligible applicant for the B&I CARES Act program or the B&I program. We will allow, for example, a church could apply if they were operating, let's say a daycare facility center where there were no religious services conducted or no religious component to it, but they may own a daycare facility for example. That business itself may be eligible for the B&I CARES Act program. Churches are generally not eligible, but there may be some isolated case by case basis, where a business that the church operates with no religious component would be eligible. I also say that, you know, casinos are not eligible. Gaming enterprises are not eligible. Any entity where more than 10% of the revenues are generated by gambling activity, including lottery proceeds, those businesses are not eligible. But again, in general, any business entity is eligible.

Kate

Great. Thank you. Aside from the CARES Act does, USDA have plans to consider incentives for regular B&I lending, such as higher guarantee percentages, lower guarantee fees to provide further relief for the COVID crisis?

Mark Brodziski

Well, unfortunate right now, we don't have authority to make changes to the standard B&I program. We do have authority on certain business basis for some of the servicing activities. In other words, looking at repayment, re-amortizations, kind of helping with existing loans, but as far as rolling forward with new loan activity, pretty much we're committed to the program as it stood up through the appropriations process. Now this, of course the program rolls through the fiscal year. Congress always could decide to provide additional authorities or other programs. But right now, we're pretty limited on the existing program.

Kate

Okay, thank you. Would I be eligible for two loans as I own my own farm and also have another business that does not relate to the farm?

Mark Brodziski

David, would you like to kind of address somebody getting creative? (Crosstalk between David and Mark)

David Chestnut

Yes, you have two different businesses, you can make an application for each of those businesses, one for the agricultural production, working capital needs and one for your other business working capital needs.

Kate

Okay, now, what is the owner (Crosstalk between Kate and Mark),

Mark Brodziski

Oh, I'm going to add that if each operate independent, that they're actually separate businesses, they would each qualify under the maximum term. So, you know if they're both larger businesses, each could qualify for up to 25 million. And each would be tested, you know, based on the B&I CARES Act qualifications as far as maximum loans separately.

Kate

Does the owner of the business need to provide a personal guarantee to be eligible to receive the loan?

Mark Brodziski

Okay, David, can I turn over to you, and just as a heads-up David I need to also duck out for a second so that you can take over?

David Chestnut

Yeah, that's fine. Thank you. And thank you for the question. And thank you Mark for your time. The guarantee question, I mean, it's pretty much, that's also negotiated with the lender, but we do require that any owner of a business that owns 20% or more of the business is required to provide a personal or corporate guarantee of any loans to that borrower. So yes, a guarantee would be required if the ownership percentage is more than 20%

Kate

Okay, thank you. Can shareholder debt be subordinated and counted as equity?

David Chestnut

It can be subordinated and counted as equity but we cannot use B&I CARES Act proceeds to make any payments on this loan and subordinated debt would count toward the equity component. Yes.

Kate

Do lenders collect, spread and submit to the agency, all borrower affiliates or is there some discretion allowed by the lender, such as lender only analyzes those affiliates owned 20% or more by the borrower?

David Chestnut

I'll let Aaron jump in on that but the B&I, we require that we receive current financial statements on the business and affiliate. And go ahead, Aaron.

Aaron Morris

No, we would see all the affiliates that are related to the business.

Kate

Okay.

Aaron Morris

So, we would need those.

Kate

And what is the draw period? Is it one year?

David Chestnut

The draw period is extended for the, the amount of time that the business needs to recover from the Coronavirus pandemic, the economic impacts of that. We established a year saying that's pretty typical. That hopefully by June of 2021, our economy is back to full strength and all businesses are recovered. But it's going to be individual to each business as to how long that recovery may be made. When a draw note is extended by a lender to a borrower, it's a one-time draw. So, you can draw funds, and once you've drawn it, you cannot draw those funds again. It's not a revolving line of credit, but there is no end to the time that you may draw eligible funds that is up to the maximum loan amount.

Kate

Okay, I do want to point out that we are about a minute over time. And I believe that we have extended our time here so that we can continue to answer questions, at least for a little while longer for those who are able to stay. The primary information intended to be provided by this webinar has already been provided. And so, if you do have to leave, you have already received all that information. I want to remind folks that within 48 hours, there will be a link provided to a recording of this webinar, that there will be slides of the PowerPoint made available and questions that we don't get to today will be answered through email.

Kate

So, going on for another question. Could you please clarify what sort of collateral is considered eligible?

David Chestnut

Eligible collateral would be real estate, equipment, inventory, accounts receivable. So, you know, we predominantly look at fixed assets as a preferred method of collateral. But basically, business collateral is what we're looking at. So, whatever your business owns, then whatever you need to pledge with a value equal to the loan amount, that's what we're looking at.

Kate

If I am projecting a drastic downturn in my quarter three and four, could I apply for this to use during those quarters?

David Chestnut

You would project your working capital needs to recover from the pandemic and if you're anticipating a downturn, that should be part of your calculation as to the total dollar amount of need.

Kate

And can we purchase livestock and equipment with funds from the CARES Act loan?

David Chestnut

Livestock would be a working capital expense if you are a breeder or growing livestock as your agricultural production, the purchase of equipment would not be eligible.

Kate

I had to make an interest payment a couple days ago. Would that payment that I have already paid be considered for reimbursement from the CARES Act?

David Chestnut

If it was made in expense, working capital expense after February 15 of 2020. Yes, that should be included in your calculation as to the immediate need of working capital funds included as part of your overall need to recover.

Kate

Okay. Are there any restrictions on lending for operating expenses to agricultural operations that raise livestock on contract packer owned animals?

David Chestnut

I don't believe we have any specific restrictions. Now this is where we may need to rely on our friends from the FSA office who are used to dealing more in the agricultural production and the nuances of what a working capital expense is, from that, but we could certainly, we don't have any restrictions on working capital or operating expenses for a business.

Kate

Okay, and this one is about tribal communities. Are tribal communities eligible to apply for community development capital? These entities are federally tax exempt under IRC section 7871. Can you fund businesses of these organizations?

David Chestnut

We are not allowed to guarantee a loan where the interest is tax exempt. So, if the tribal nation where the borrower is a tax-exempt entity where they're not but the interest paid on that loan is tax exempt, we could not guarantee that loan. But certainly, tribal entities are eligible borrowers. And for tribal businesses, what they do the exception to that would be of course, a tribal casino. But for standard operating expenses for tribally owned business, that is an eligible purpose, an eligible entity.

Kate

Okay. This is a double checking. The B&I CARES program is still based on receiving an approval from a primary lender; thus, standard lending guidelines will still apply. Correct?

David Chestnut

A very good and astute question, and thanks for bringing that up. Yes, we guarantee loans that are made by lenders. So, the lenders will undergo their standard credit criterion and analysis of a business prior to submitting an application to the agency for us to guarantee their loan and I do emphasize that this is the lender's loan to the borrower. We are just an entity providing a B&I CARES Act program loan guarantee to minimize the lenders credit risk for a business that may not be receiving a whole lot of revenues at the current time.

Kate

Okay, so I think we have time for a few more questions here and then we'll go ahead and wrap it up. Is the local foods rural area exemption eligible under B&I CARES Act?

David Chestnut

Yes that, that exception for local food distribution is still in effect.

Kate

Can the 2% guarantee fee be rolled into the loan package?

David Chestnut

Oh, yes. Yeah, that is an eligible cost. That's a loan cost.

Kate

Okay, you know, I think we're coming just about down to our first set of them. So, this might be a good place to go ahead and say thank you for today, and Dave, I'll turn it over to you for an official wrap up. But thank you so much for the extra time you've taken to answer all of these questions and thank you to those who stayed online because of their interest. Dave.

David Chestnut

Kate, Thank you very much. And again, we want to sincerely thank all of you for joining us today. We hope we've answered most of your questions related to the program. As Aaron mentioned, we have state offices and we have 47 state offices across the country. They may not be at their desk but we are continuing to deliver our program through our quarantine in various effects. Aaron, myself and Mark Brodziski, we're all located in the national office in Washington DC. We haven't seen each other face to face for going on a couple months now. But we're still getting our programs delivered. So, we appreciate you staying with us. I will say there was a question in there

as far as a foreign entity eligible? We do allow a foreign, foreign owned entity to be an eligible B&I borrower, or a B&I CARES Act program borrower so long as the loan proceeds, and the collateral for that project is located within the United States or one of the territories. So, they are eligible. We thank you again for your time, Kate, for your time as well and thank you and have a great day and stay healthy.