



Written By: Derek Worchel

USDA Business and Industry Loan Program: Helping Small Businesses Grow and Build Profitability

The USDA Business and Industry (B&I) Loan Program is one of the most powerful—but often overlooked—financing tools available to small and mid-sized businesses operating in rural America. Backed by the U.S. Department of Agriculture (USDA), this program provides loans financing business related needs such as real estate, equipment, and working capital for communities with fewer than 50,000 residents. The USDA guarantees the money loaned to you by the bank. In the event of a default, the loan is guaranteed against loss, and the banks then recoup the money from the USDA. Since the guarantee protects against loss, the banks will lend money on projects they would otherwise reject. The USDA program is expensive, however, offers high debt leverage with a minimum downpayment. The program is a preferred option when traditional bank financing is not available.

Typical Fees and Costs

While costs vary by lender, borrowers should expect the following fees:

- ❖ **USDA Guarantee Fee:** 2% to 3% of 80% of the loan amount. For example, if the bank loaned you 1M loan the USDA guarantees 80% or 800k. Your fee would be 2% to 3% of the 800k (16K-24K). This is a program fee, and keeps the program solvent against future losses.
- ❖ **Annual USDA Renewal Fee:** 0.5% of the outstanding guaranteed balance, on 800k that calculates to 4k a year.
- ❖ **Lender Origination Fee:** Usually around 1% to 1.5% of the loan amount, depending on the lender and project complexity; 8k – 12k (upfront).
- ❖ **Broker Fee:** 1% - 1.5%, depending on loan size; 8k-12k (upfront).
- ❖ **Interest Rates:** The rate is based on the WSJ Prime rate, plus a margin of 1.25-2%.
- ❖ **Longer Repayment Terms:** Terms may extend up to 30 years for real estate, 15 years for equipment, and 7 years for working capital.
- ❖ **Appraisal and Closing Costs:** Range generally from \$10,000 to \$15,000 (paid prior to close).



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- ❖ Feasibility Study: Larger projects may need to show business viability through a feasibility or market study. This can cost up to 10k.

With these upfront fees, the program can become costly. USDA is mostly looked at when conventional financing is not an option. Conventional banking is a preferred path to research, however, conventional financing is usually not available in rural areas. USDA loans can go as high as 25M per project, which most banks won't lend high limits in rural regions of the county. The higher price of the loan is the downside, while the low equity downpayment, longer term loans, and access to up to 25M in rural areas are the positives. Again, this should be looked at after conventional financing is ruled out.

Eligibility and Program Requirements

To qualify for a USDA Business and Industry Loan, a borrower must meet several key criteria:

- ❖ Rural Location: The business must be located in an area with a population of 50,000 or fewer people.
- ❖ Eligible Borrowers: For-profit businesses, nonprofit corporations, cooperatives, public bodies, or individuals may apply.
- ❖ Creditworthiness: A good credit history and demonstrated repayment ability are required, 700+ FICO score.
- ❖ Collateral: The loan must be fully secured, typically with business assets, real estate, or equipment.
- ❖ Equity Requirement: Generally, the equity requirement is low, which is a positive for the borrower. Generally, only 10% to 20% equity injection is required verses 35%+ on conventional financing.
- ❖ USDA can go up to 25M per project



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USDA Construction and Alternate Financing

The USDA B&I loan isn't limited to working capital—it's also a great tool for construction and property development. Businesses can use the funds for:

- ❖ New construction or renovation for business related buildings (not passive investments such as multifamily; must be related to your primary business)
- ❖ Qualifying buildings include: Hotels, Assisted Living, Medical/Dental Clinics, industrial properties and many others
- ❖ Renovation and expansion is allowed to modernize or upgrade facilities
- ❖ Purchasing land and/or buildings is allowed
- ❖ You may also refinance a property up to 80% of the total value of the property. However, cash-out is not available through a USDA refinance.

For example, a manufacturing company in a rural county can use a USDA B&I loan to build a new plant or renovate an outdated facility, resulting in greater efficiency and profitability.

When the USDA B&I Loan is a Smart Choice

For many small business owners, especially in rural communities, traditional bank financing can be hard to obtain, especially for high limit loans. The USDA Business and Industry Loan Program offers a way to secure long-term financing, with a low equity investment for loans up to 25M. Whether it's for building a new facility, buying equipment, or expanding operations, the program helps businesses grow through access to financing. USDA, due to the high cost, is the best option when traditional financing falls short, or the borrower only has limited funds to invest as a downpayment (10-20% downpayment).