B&I LOAN GUARANTEE APPLICATION CHECKLIST

**Applications:** Applications will be filed with the Agency by submitting the following information. Procedure reference: RD Instruction 4279-B, 4279.161(b).

1. Form 4279-1, "Application for Loan Guarantee (Rural Business Cooperative Service)". Must submit original borrower and lender signatures.

2. Form 4279-2, “Certification of Non-Relocation and Market Capacity Information Report,” if the proposed loan is in excess of $1 million *and* will increase direct employment by more than 50 employees.

3. Environmental review documentation in accordance with 7 CFR part 1970, “Environmental Policies and Procedures,” or successor regulation. For all loans of $100,000 or more that propose to use real estate as collateral, a Phase 1 Environmental Site Assessment covering each real estate facility must accompany the application.

4. Forms AD-3030, “Representations Regarding Felony Conviction and Tax Delinquent Status for Corporate Applicants” if the borrower is a corporation. The lender must also complete this form.

5. A personal or commercial credit report from an acceptable credit reporting company for each individual or entity owning 20 percent or more interest in the borrower, except for those corporations listed on a major stock exchange. Credit reports are not required for elected and appointed officials when the applicant is a public body or non-profit corporation. Adverse items on a credit report should be discussed and explained in the lender’s written analysis.

6. Commercial credit reports for the borrower(s) and any parent, affiliate, and subsidiary companies. Adverse items on a credit report should be discussed and explained in the lender’s written analysis. If no credit report exists for a new business/entity, such documentation should be provided. If a credit report exists, but would contain minimal information due to the start-up nature of the business, the credit report must still be submitted.

7. Current (not more than 90 days old) financial statements for any parent, affiliate, and subsidiary companies.

8. Current (not more than 90 days old) personal and corporate financial statements of any guarantors.

9. For all borrowers (including new businesses), the below financials must be submitted. For co-borrowers, all financials must be prepared both individually and on a combined basis. Projections, including the pro forma balance sheet as of closing, must be prepared in line with GAAP standards. Projections should be supported by a list of assumptions showing the basis for the projections, and projections should encompass 2 full years of a borrower’s operations based on the business’s fiscal year end. In the event processing of the loan is not complete within 90 days, a current set of financial statements will be required every 90 days.

* A current balance sheet (not more than 90 days old)
* A year-to-date income statement (not more than 90 days old)
* A pro forma balance sheet projected for loan closing
* Two years of projected balance sheets
* Two years of projected income statements
* Two years of projected cash flow statements
* Assumptions for projected financials

10. For borrowers that are existing businesses, balance sheets and income statements for the last 3 years. If the business has been in operation for less than 3 years, balance sheets and income statements for all years for which financial information is available. (Tax returns are not financial statements and should not be submitted to Rural Development, though historic financials may be based upon tax returns).

11. The lender's comprehensive, written credit analysis of the proposal, as described in § 4279.131 (see attachment).

12. A draft loan agreement. A final loan agreement must be executed by the lender and borrower before the Agency issues a Loan Note Guarantee and must contain any additional requirements imposed by the Agency in its Conditional Commitment. The loan agreement must establish prudent, adequate controls to protect the interests of the lender and Agency. At a minimum, the following requirements must be included in the loan agreement:

(i) Type and frequency of borrower and guarantor financial statements to be required for the duration of the loan;

(ii) Prohibition against assuming liabilities or obligations of others;

(iii) Limitations on dividend payments and compensation of officers and owners;

(iv) Limitation on the purchase and sale of equipment and other fixed assets;

(v) Restrictions concerning consolidations, mergers, or other circumstances and a limitation on selling the business without the concurrence of the lender;

(vi) Maximum debt-to-net worth ratio; and

(vii) Minimum debt service coverage ratio.

13. Appraisals, accompanied by a copy of the appropriate environmental site assessment, if available, and the technical review of the appraisals required by § 4279.144(a).

14. A business plan or similar document that must include a description of the business and project; management experience; sources of capital; products, services, and pricing; marketing plan; proposed use of funds; availability of labor, raw materials, and supplies; contracts in place; distribution channels; and the names of any corporate parent, affiliates, and subsidiaries with a description of the relationship. A business plan may be omitted if the information is included in a feasibility study. A business plan may also be omitted when loan proceeds are used exclusively for debt refinancing and fees.

15. Independent feasibility study, if required. See § 4279.150 and Appendix E of 4279-B for additional details regarding feasibility studies.

16. For companies listed on a major stock exchange or subject to the Securities and Exchange Commission regulations, a copy of SEC Form 10-K, "Annual Report Pursuant to sections 13 or 15(d) of the Securities Exchange Act of 1934."

17. For health care facilities, a certificate of need, if required by statute or State law.

18. For guaranteed loan applications for five or more residential units, including nursing homes and assisted-living facilities, an Affirmative Fair Housing Marketing Plan that is in conformance with 7 CFR 1901.203(c)(3). Please contact Rural Development for additional guidance.

19. Any additional information required by the Agency to make a decision, including any information needed to score the project in accordance with § 4279.166.

20. A Dun and Bradstreet Universal Numbering System (DUNS) number for the business. DUNS numbers can be obtained free of charge by calling (866) 785-0428 or online at: <http://fedgov.dnb.com/webform.>

**FOR APPLICATIONS OF $600,000 OR LESS**

Applications for loans of $600,000 or less may submit a reduced amount of documentation to USDA Rural Development for complete applications. The following items, as listed above, would constitute a full application for loans of $600,000 or less: Items 1, 3, 4, 9, 10, 11, 13, 15, 18, 19 and 20.

Items 5, 6, 7, 8, 12, 14, 16, and 17 (as applicable) MUST STILL BE OBTAINED BY THE LENDER AND AVAILABLE FOR AGENCY REVIEW IN THE LENDER’S CASE FILE.

Should Rural Development determine that the proposed project presents a high level of risk or that insufficient information has been provided to allow the Agency to make an informed decision, Items 5, 6, 7, 8, 12, 14, 16, and 17 (as applicable) may be required to be submitted in order to consider the application complete.

**FOR ALL APPLICATIONS**

An application is not complete until all of the above applicable items have been received by Rural Development. The only applicable items listed above that can be omitted from a full application are appraisals (item #13) and Affirmative Fair Housing Marketing Plans (item #18). If necessary, the submission of adequate appraisals and Affirmative Fair Housing Marketing Plans can be included as conditions in the Agency’s Conditional Commitment.

The regulatory references cited throughout this checklist may be viewed at the following sites: <https://www.rd.usda.gov/files/4279b.pdf> or <https://www.rd.usda.gov/publications/regulations-guidelines/instructions> (see Part 4279-B).

ATTACHMENT - §4279.131 “Credit Quality”

§ 4279.131 Credit quality.

The Agency will only guarantee loans that are sound and that have a reasonable assurance of repayment. The lender is responsible for conducting a financial analysis that involves the systematic examination and interpretation of information to assess a company’s past performance, present condition, and future viability. The lender is primarily responsible for determining credit quality and must address all of the elements of credit quality in a comprehensive, written credit analysis, including [capacity](http://www.investorwords.com/5872/capacity.html) (sufficient [cash flow](http://www.investorwords.com/768/cash_flow.html) to [service](http://www.investorwords.com/6664/service.html) the [debt](http://www.investorwords.com/3373/obligation.html)), [collateral](http://www.investorwords.com/929/collateral.html) ([assets](http://www.investorwords.com/273/asset.html) to [secure](http://www.businessdictionary.com/definition/secure.html) the loan), conditions (borrower, economy, and industry), capital (equity/[net worth](http://www.investorwords.com/3267/net_worth.html)), and character (integrity of management), as further described in paragraphs (a) through (e) of this section. The lender’s analysis is the central underwriting document and must be sufficiently detailed to describe the proposed loan and business situation and document that the proposed loan is sound. The lender’s analysis must include a written discussion of repayment ability with a cash-flow analysis, history of debt repayment, borrower’s management, necessity of any debt refinancing, and credit reports of the borrower, principals, and any parent, affiliate, or subsidiary. The lender’s analysis must also include spreadsheets and discussion of the 3 years of historical balance sheets and income statements (for existing businesses) and 2 years of projected balance sheets, income statements, and cash flow statements, with appropriate ratios and comparisons with industrial standards (such as Dun & Bradstreet or the Risk Management Association). All data must be shown in total dollars and also in common size form, obtained by expressing all balance sheet items as a percentage of assets and all income and expense items as a percentage of sales. Agency credit evaluation guidance is outlined in Appendix B.

(a) Capacity/cash flow. The lender must make all efforts to ensure the borrower has adequate working capital or operating capital and to structure or restructure debt so that the borrower has adequate debt coverage and the ability to accommodate expansion.

(b) Collateral. The lender must ensure that the collateral for the loan has a documented value sufficient to protect the interest of the lender and the Agency. The discounted collateral value must be at least equal to the loan amount.

(1) The lender must discount collateral consistent with the sound loan-to-discounted value policy outlined in paragraphs (b)(1)(i) through (iv) of this section. The type, quality, and location of collateral are relevant factors used to assess collateral adequacy and appropriate levels of discounting. Other factors to be considered in the discounted value of collateral must include the marketability and alternative uses of the collateral. That is, specialized buildings or

equipment will be discounted greater than multi-purpose facilities or equipment. When using discounts other than those outlined in paragraphs (b)(1)(i) through (b)(1)(iv) and when in accordance with paragraph (b)(2), the lender must document why such discounts are appropriate.

(i) A maximum of 80 percent of current fair market value will be given to real estate. Special purpose real estate must be assigned less value.

(ii) A maximum of 70 percent of cost or current fair market value will be given to machinery, equipment, and furniture and fixtures and will be based on its marketability, mobility, useful life, specialization, and alternative uses, if any. Equipment can be valued by its cost (if newly acquired and supported by a bill of sale) or an appraisal that establishes a fair market value.

(iii) A maximum of 60 percent of book value will be assigned to acceptable inventory and accounts receivable; however, all accounts over 90 days past due, contra accounts, affiliated accounts, and other accounts deemed not to be acceptable collateral, as determined by the Agency, will be omitted. Calculations to determine the percentage to be applied in the analysis are to be based on the realizable value of the accounts receivable taken from a current aging of accounts receivable from the borrower’s most recent financial statement. At a minimum, reviewed annual financial statements will be required when there is a predominant reliance on inventory and/or receivable collateral that exceeds $250,000. Except for working capital loans, term debt must not be dependent upon accounts receivable and inventory to meet collateral requirements.

(iv) No value will be assigned to unsecured personal, partnership, or corporate guarantees.

(2) Some businesses are predominantly cash-flow oriented, and where cash flow and profitability are strong, loan-to-value discounts may be adjusted accordingly with satisfactory documentation. A loan primarily based on cash flow must be supported by a successful and documented financial history. Under no circumstances must the loan-to-value of the collateral (loan-to-fair market value) ever be equal to or greater than 100 percent.

(3) Intangible assets cannot serve as primary collateral.

(4) A parity or junior lien position may be considered provided the loan-to-discounted value is adequate to secure the guaranteed loan in accordance with this section.

(5) The entire loan must be secured by the same security with equal lien priority for the guaranteed and unguaranteed portions of the loan. The unguaranteed portion of the loan will neither be paid first nor given any preference or priority over the guaranteed portion.

(c) Conditions. The lender must consider the current status of the borrower, overall economy, and industry for which credit is being extended. The regulatory environment surrounding the particular business or industry must also be considered. Businesses in areas of decline will be required to provide strong business plans that outline how they differ from the current trends. Local, regional, and national condition of the industry must be addressed.

(d) Capital/equity.

(1) A minimum of 10 percent tangible balance sheet equity (or a maximum debt to tangible net worth ratio of 9:1) will be required at loan closing for borrowers that are existing businesses. An existing business is a business that has been in operation for at least 1 full year. Newly-formed entities that are buying existing businesses or facilities may be considered an existing business as long as the business remains in operation. Mergers or changes in the business name or legal type of currently operating businesses are considered to be existing businesses as long as the business purpose has not changed significantly. A minimum of 20 percent tangible balance sheet equity (or a maximum debt to tangible net worth ratio of 4:1) will be required at loan closing for borrowers that are new businesses. A new business is a newly opened establishment that has not been in operation for at least 1 full year. Newly-formed entities leasing space or building ground-up facilities, even if there are affiliated businesses doing the same kind of business, are new businesses. For energy projects, the minimum tangible balance sheet equity requirement range will be between 25 percent and 40 percent (or a maximum debt to tangible net worth ratio between 3:1 and 1.5:1) at loan closing, considering whether the business is an existing business with a successful financial and management history or a new business; the value of personal/corporate guarantees offered; contractual relationships with suppliers and buyers; credit rating; and strength of the business plan/feasibility study.

(2) Tangible balance sheet equity will be determined based upon financial statements prepared in accordance with GAAP. The capital/equity requirement must be met in the form of either cash or tangible earning assets contributed to the business and reflected on the borrower’s balance sheet. Transfers of assets at fair market value between related parties, which are not arm’s length transactions, must be in accordance with GAAP and require evidence that the transaction was entered into at market terms. Tangible equity cannot include appraisal surplus, bargain purchase gains, or intangible assets. Owner subordinated debt may be included when the subordinated debt is in exchange for cash injected into the business that remains in the business for the life of the guaranteed loan. The note or other form of evidence must be submitted to the Agency in order for subordinated debt to count towards meeting the tangible balance sheet equity requirement. As it is the principal amount of cash being injected as owner subordinated debt that the Agency will consider equity when calculating tangible balance sheet equity, no payments can be made on this subordinated debt because the cash must remain in the business for the life of the loan. This does not, however, preclude interest from being paid on the subordinated debt as long as the guaranteed loan is current and there are no loan agreement/covenant violations.

(3) The lender must certify, in accordance with §4279.181(a)(9)(i), that the capital/equity requirement was determined, based on a balance sheet prepared in accordance with GAAP, and met, as of the date the guaranteed loan was closed, giving effect to the entirety of the loan in the calculation, whether or not the loan itself is fully advanced. A copy of the loan closing balance sheet must be included with the lender’s certification.

(4) In situations where a real estate holding company and an operating entity are dependent upon one another’s operations and are effectively one business, they must be co-borrowers, unless waived by the Agency when the Agency determines that adequate justification exists to not require the entities to be co-borrowers. The capital/equity requirement will apply to all borrowing entities on a consolidated basis, and financial statements must be prepared both individually and on a consolidated basis.

(5) In situations where co-borrowers are independent operations, the capital/equity requirement will apply to all co-borrowers on an individual basis.

(6) For sole proprietorships and other situations where business assets are held personally, financial statements must be prepared using only the assets and liabilities directly attributable to the business. Assets, plus any improvements, must be valued at the lower of cost or fair market value.

## (7) Increases in the equity requirement may be imposed by the Agency. A reduction in the capital/equity requirement for existing businesses may be permitted by the Administrator under the following conditions:

(i) Collateralized personal and/or corporate guarantees, in accordance with § 4279.132, when feasible and legally permissible, are obtained; and

(ii) All pro forma and historical financial statements indicate the business to be financed meets or exceeds the median quartile (as identified in the Risk Management Association's Annual Statement Studies or similar publication) for the current ratio, quick ratio, debt-to-worth ratio, and debt coverage ratio.

(e) Character. The lender must conduct a thorough review of key management personnel to ensure that the business has adequately trained and experienced managers. The borrower and all owners with a 20 percent or more ownership interest must have a good credit history, reflecting a record of meeting obligations in a timely manner. If there have been credit problems in the past, the lender must provide a satisfactory explanation to show that the problems are unlikely to recur.