



FARMER MAC

*Agenda*

- *Rural Business-Cooperative Service*
- *Community Facilities Loan Guarantee*
- *Guaranteed Farm Loan Program*
- *Farmer Mac – Capital Markets Update*

*Financing Rural America®*



FARMER MAC

Financing Rural America\*

## Guest Speakers

- **Valarie Flanders**

- RBS Regional Coordinator – Southern Region
- USDA – Rural Development
- Washington, DC

- **Jennifer Sass**

- Asset Risk Management – Community Programs
- USDA – Rural Development
- Raleigh, NC

- **Randi Sheffer**

- Chief – Farm Loan Programs, Loan Making Division
- USDA – Farm Service Agency
- Washington, DC



**USDA** United States  
Department of  
Agriculture

**Rural Development**

Rural Business-Cooperative Service  
**Bridging the Lending Gaps in Rural America**  
*Government Guaranteed Lending Opportunities*

## AGENDA

- When and Why to use the Program
  - Benefit to the Lender
  - Benefit to the Borrower
- Program Qualifications
  - Borrower eligibility
  - Project eligibility
- Program Loan dynamics
  - Rates and terms
  - Loan and Guarantee limits
  - Loan Guarantors

## **BUSINESS & INDUSTRY (B&I) GUARANTEED LOAN PROGRAM**

The B&I program is used:

- To improve, develop, or finance business, industry, and employment
- To improve the economic and environmental climate in rural communities
- To provide lasting community benefits

*Not intended for marginal or substandard loans*

## Agriculture Improvement Act of 2018

### Business & Industry Guaranteed Loan Program (Title VI)

- When determining rural area eligibility, Section 6301 provides exclusion of incarcerated populations, as well as populations residing on military bases.

### LOUISIANA – B&I Guaranteed Loan



Vacant warehouse  
repurposed for  
manufacturing  
composite railroad ties.  
Community Population:  
1,160

## Tennessee

Boutique amphitheater at the historic Graystone Quarry located at 4520 Graystone Quarry Lane, Franklin, TN. The 7,500-seat facility will open in 2020 with a full season of concert events produced by Live Nation. 138-acre property financed through the B&I Guaranteed Loan Program.

[Graystone Quarry](#)

## MISSISSIPPI B&I Guaranteed Loan



- Former County Seat
- Residential suburb to major labor market

## **B&I Guaranteed Loan Program**

- Fiscal year 2018
  - Number of Loans: 346
  - Amount Obligated: \$1.2 billion
  - Average Loan Size: \$3.4 million
  - Jobs created/saved: 11,401
  - Businesses assisted: 420
- Estimated FY 2019 Appropriations: \$1.4 Billion

## **RURAL ENERGY FOR AMERICA PROGRAM (REAP) GUARANTEED LOANS**

The purpose of REAP is to purchase and install Renewable Energy Systems (RES) where:

- Energy is derived from a wind, solar, Renewable Biomass, ocean\*, geothermal or Hydroelectric Sources or
- Hydrogen is derived from geothermal, Hydroelectric Sources, or Renewable Biomass or water using wind, solar, ocean\*

\*includes tidal, wave, current, and thermal

## **RURAL ENERGY FOR AMERICA PROGRAM (REAP) GUARANTEED LOANS**

- REAP may also be used to purchase and install Energy Efficiency Improvements (EEI) which is defined as improvements to or replacement of an existing building and/or equipment that reduces energy consumption on an annual basis.

### **Agriculture Improvement Act of 2018**

#### **Rural Energy for America Program (Title IX)**

- Provision added for agricultural producers to apply for guaranteed loan funding for energy efficient equipment. (Limited to 15% of program funds.)
- Provided clarification that storage systems that tie to renewable energy systems are eligible under REAP.

## Puerto Rico REAP Guaranteed Loan



- Owner is also an Engineer
- 100 acres of coffee trees
- Solar panels decreased utility expense by 75%

## Rural Energy for America Program (REAP) Guaranteed Loans

- Fiscal year 2018
  - Number of Loans: 70
  - Amount Obligated: \$273 million
  - Average Loan Size: \$3.9 million
  - Jobs created/saved: 149
  - Businesses assisted: 62
- Estimated FY 2019 Appropriations: \$502 million



## **LENDER BENEFIT**

- The guaranteed portion of a loan is not counted towards a financial institution's legal lending limit, allowing more latitude in volume of loans.
- Use of a Government guarantee may bolster the existing private credit structure through the guarantee of quality loans that will provide lasting community benefits.
- Potential income to financial institutions resulting from participation in Secondary Market note sales.

## **BORROWER BENEFIT**

- Because of the improved private credit structure using the Government guarantee, borrowers may realize better rates and terms from the lender.
- The B&I Guaranteed Loan Program does not require cash equity, allowing equity to be based on tangible balance sheet equity. This often may be easier for a business owner to meet credit requirements without compromising liquidity.

## BORROWER BENEFIT

- The REAP requires borrowers to demonstrate evidence of cash equity injection in the project of not less than 25% of total eligible project costs. However, the borrower may use other sources of capital as a resource to meet the requirement.

## BORROWER ELIGIBILITY

- For-profit businesses
- Nonprofits and cooperatives
- Federally recognized Tribes
- Public bodies and individuals
- **REAP ONLY** – Borrower must meet Rural Small Business or Agricultural Producer definitions

## **BORROWER ELIGIBILITY**

Program regulation does not allow loan eligibility for:

- Lending and investment institutions;  
Insurance companies
- Charitable and Fraternal organizations

## **PROJECT ELIGIBILITY**

- Owner US Citizenship may, or may not be required (based on entity type and Program)
- Business must be in a rural area (be sure to check eligibility map)
- Local foods projects – Can also be done in urban areas
- Most small businesses are eligible, including agricultural, except . . . .

## INELIGIBLE PROGRAM PURPOSES

- Cash out (if retaining ownership)
- Job Displacement (if >\$1MM loan and 50+ jobs relocated)
- Residential Housing
- Owner-occupied housing
- Agricultural production
- Lease payments, lines of credit
- Tax-exempt Bonds

## INELIGIBLE PROGRAM PURPOSES

- Other Federal Agency loans
- Gambling, or illegal activities
- Golf courses
- Conflict of Interest or Appearance of Conflict of Interest
- Businesses located on property with environmental impact concerns

## PROGRAM LOAN DYNAMICS

- Rates and Terms
- Guarantee Fees
- Loan and Guarantee Limits
- Loan Guarantors

## RATES AND TERMS

- Negotiated by the lender and borrower - approved by USDA
- 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
- Reasonable prepayment fees allowed
- May hold, participate, or sell to manage risk

## INITIAL GUARANTEE FEES

- Business & Industry (B&I):
  - 3 percent – OR:
  - 1 percent – for qualified projects
  - Loans of \$5 million or less
- Rural Energy for America Program (REAP)
  - 1 percent

*Fees may be included in loan subject to collateral*

## ANNUAL RENEWAL FEES

- Business & Industry (B&I):
  - 0.5 percent
- Rural Energy for America Program (REAP):
  - 0.25 percent

## LOAN AND GUARANTEE LIMITS

- Loan Limits
  - \$10 Million - standard
  - \$25 Million – must be “High Priority” score
  - \$40 Million for rural cooperative organizations

## GUARANTEE LIMITS

- 85% for loans up to \$600 thousand (REAP Only)
- 90% for “High Priority” or Legal or Regulatory Lending Limitations for loans up to \$5 million
- 80% for loans less than \$5 million
- 70% for loans between \$5 and \$10 million
- 60% for loans over \$10 million

## WHO IS REQUIRED TO BE A GUARANTOR?

- Individuals holding 20% or more ownership must provide personal guarantee
- Corporate partners holding 20% or more ownership must provide corporate guarantee
- *Note: There is a \$50 million loan limit for Guarantors.*

## NEED MORE INFORMATION?

- [RD State Office contact list](#)
- [Rural Area Eligibility Map Tool \(RBS\)](#)
- [USDA Website](#)

[www.rd.usda.gov](http://www.rd.usda.gov)





**USDA** United States  
Department of  
Agriculture

**Rural Development**

**THANK YOU!**

Valarie C. Flanders  
RBS Regional Coordinator, South Region  
Phone: (207) 478-9903 or email: [Valarie.Flanders@usda.gov](mailto:Valarie.Flanders@usda.gov)

*USDA is an equal opportunity provider, employer, and lender.*



**USDA** United States  
Department of  
Agriculture

**Rural Development**

**USDA Rural Development  
Community Facilities Loan Guarantee**  
APRIL 25<sup>TH</sup>, 2019

Jennifer Sass, Asset Risk Management Specialist

## Community Facilities

### Program Overview

- Loan Guarantee is a credit enhancement to help finance community facilities in rural areas.
- USDA can guarantee up to 90% of loss of principal and interest on loans and bonds made to develop or improve essential community facilities in rural areas.
- The guaranteed portion is backed by the full faith and credit of the U.S. government and can be sold on the secondary market.
- An Assignment of Guarantee, representing the guaranteed portion is issued by the Rural Housing Service of USDA Rural Development; and the agency pays all principal and interest in the event of a loss.
- The guarantee fee is \*1% (proposed increase to 1.5%) of the guaranteed portion of the loan and is paid by the Lender of Record, or may be passed on to the borrower.
- Projects may be jointly funded

## Community Facilities

### Lender Role

The Community Facilities Guaranteed Loan program is **lender-driven**. The Lender of Record makes the application and, if approved, makes and services the loan. In addition to making guaranteed loans, lenders may provide interim construction.

## Community Facilities

### Guarantee Against Loss

Should a loss occur the guarantee provides for a 90% guaranty of the losses incurred, including interest for 90 days beyond the declaration of default and cost of collection. The Lender of Record must retain a minimum of 5% of the total loan amount. This amount must be part of the non-guaranteed portion of the loan. The Lender of Record is responsible for servicing the entire loan.

## Community Facilities

### Types of Projects

A broad range of community facilities are eligible for guaranteed loans. These include, but are not limited to:

- **Community Health Services** (such as health clinics, assisted-living facilities, hospitals, nursing homes, and medical and vocational rehabilitation centers, mental or behavior health and substance abuse treatment)



## Community Facilities

### Types of Projects



- **Public Safety** - fire, rescue, and public-safety facilities (such as police cars, fire trucks, communication centers, and police stations)

## Community Facilities

### Types of Projects

- **Educational and Cultural** facilities (such as schools, libraries, art museums, and theaters)



## Community Facilities

### Types of Projects

- **Transportation facilities** (such as airports, municipal garages, street improvements, rail, or bus service)



## Community Facilities

### Types of Projects



- **Community Support Services** (such as child or adult day care and business incubators); and public buildings and improvements (including community and multipurpose centers).

## Community Facilities

### Underwriting

All projects financed must be based on revenues, taxes, assessments, fees, or other sources of revenues in an amount sufficient to provide for facility operation and maintenance, a reasonable reserve, and debt payment. The lender is responsible for determining the credit quality and economic feasibility of the proposed loan and must address all elements of the credit quality in a written analysis which includes adequacy of equity, cash flow, security, history, and management capabilities.

## Community Facilities

### Rates and Terms

The repayment period is limited to the useful life of the facility, but the maximum term for all loans in the Community Facilities program is 40 years. The interest rate may be fixed or variable and is negotiated between the Lender of Record and the borrower. The rates may be different for the guaranteed portion of the financing vs. the non-guaranteed portion of the financing; however, the interest rate changes may not exceed reasonable rates for similar non-guaranteed loans.

## Community Facilities

### Security

Security must be sufficient for repayment of the loan and reasonably assured from the cash flows of the project and/or supplemented by other revenue streams when considering the integrity and ability of project management, soundness of the project, and the borrower's prospective earnings.

## Community Facilities

### Security

All projects financed require a shared first priority lien (in some cases a best available lien) on:

- the real estate supporting the project, or if a leasehold, a first priority leasehold mortgage;
- the chattels or if a leasehold a first priority leasehold claim. In some instances the best available lien may be acceptable;
- inventories and accounts receivable;
- revenues, taxes, assessments, fees, or other sources of revenues.
- Collateral may be shared *pari passu* with other financing for the same project, meaning that the security may be first priority for the benefit of all the financing providers of the project. Revenue streams (revenues, taxes, assessments, fees, or other revenue streams) must be sufficient to provide for facility operation and maintenance, a reasonable reserve, and debt payment.



## Community Facilities

### Lender of Record Eligibility

Eligible Lenders of Record include Federal or State chartered banks, thrifts, the Bank for Cooperatives, National Rural Utilities Cooperative Finance Corporation, Farm Credit System, insurance companies regulated by a State or National insurance regulatory agency, and State bond banks or State bond pools. Eligible Lenders of Record must be subject to credit examination and supervision by an appropriate agency of the United States or a State that supervises and regulates credit institutions. A Lender of Record must have the capacity and authority to adequately service loans through maturity for which a guarantee is requested. Under some circumstances, non-traditional lenders may be deemed eligible to participate. Please contact your USDA Rural Development Office on how to apply for Lender of Record eligibility determination as a non-traditional lender.

## Community Facilities

### Applicant

#### Eligibility

- Eligible applicants are municipalities, counties, special purpose districts, nonprofits, and tribal governments. Eligible nonprofits, which are broadly defined, must demonstrate significant community support and have significant ties to the local rural community, have a broad membership base, be controlled by members of the community, and have articles of incorporation and by-laws. Applicants must have the legal authority to borrow and repay loans, pledge security for loans, and construct, operate, and maintain facilities. They must also have the ability to manage the facilities effectively.
- Facility must be located in an area with a population of not more than 20,000\*



## Community Facilities

### Applicant

#### Financially Sound

- Applicants must be financially sound, need funds at reasonable rates and terms, and must have the ability to organize and manage the facility effectively. Applicants must demonstrate that the proposed community facility has substantial community support.

## Community Facilities

### Uses of Funds

Loan funds may be used to construct, enlarge, or improve facilities. Most project costs are eligible including:

- Construction
- Land Acquisition
- Legal, Architectural and other related costs
- Equipment and Fixtures
- Refinancing is limited to less than 50% of the total proposed loan AND the debt must have been incurred for the facility being financed.

## Community Facilities

### Process Checklist

USDA provides a process checklist of all documentation and analysis that should be maintained by the Lender of Record. Loans are primarily processed on the Lender's own forms. When a pre-application is submitted, a borrower provides historical financial statements, financial projections, organizational documents, information on existing debt, budgets, site information, information on potential environmental issues that may affect project viability, and evidence of community support.

## Community Facilities

### Process Checklist

When the full (final) application is submitted, the Lender completes three specific USDA forms and provides environmental information and its credit analysis, including proposed security. The lender is responsible for determining the credit quality and economic feasibility of the proposed loan and must address all elements of the credit quality in a written analysis which includes adequacy of equity, cash flow, security, history, and management capabilities.

The borrower provides cost estimates, copies of permits, certifications, and recommendations of appropriate regulatory agencies, feasibility study reports, and preliminary engineering and architectural reports.

## Community Facilities

### USDA Required Forms

#### Application Forms (Completed by Lender of Record and Borrower)

- [SF 424.2](#) Application for Federal Assistance (for pre-application only)
- [RD 1940-20](#) Request for Environmental Information
- [RD 3575-1](#) Application for Loan and Guarantee

#### Approval Forms (Completed by RD)

- [RD 449-14](#) Conditional Commitment for Guarantee
- [RD 1940-3](#) Request for Obligation of Funds - Guaranteed Loans

## Community Facilities

### USDA Required Forms

#### Closing Forms (Completed by RD)

- [RD 449-34](#) Loan Note Guarantee
- [RD 449-35](#) Lender's Agreement
- [RD 1980-19](#) Guaranteed Loan Closing Report

#### Servicing Forms (Completed by Lender of Record)

- [RD 1980-41](#) Guaranteed Loan Status Report
- [RD 449-36](#) Assignment Guarantee Agreement
- [RD 1980-7](#) Notification of Transfer and Assumption of a Guaranteed Loan

## Community Facilities

### Estimated Timeline: Typical Application Process

The application process consists of the following steps:

- Lender of Record and borrower submit joint pre-application to determine eligibility.
- RD field staff meets with all parties at project site (typically within 15 days) to make a preliminary eligibility determination and address any environmental issues.
- The Lender of Record and Borrower submit an Application for Federal Assistance and a Request of Environmental Information.
- If a positive response is provided from the Pre-Application, the borrower authorizes the Feasibility Study. Upon completion and assuming positive assessment by the Lender of Record, the lender submits the Application of Loan Note Guarantee.

## Community Facilities

### Estimated Timeline: Typical Application Process

- Simultaneously, RD conducts a financial credit evaluation and an environmental assessment. Facilities financed with USDA Rural Development funds are subject to review under the National Environmental Policy Act (NEPA).
- Typically, issuance of the Conditional Commitment for Guarantee takes approximately 30-60 days from the date of a complete application, depending upon the nature, scope, and complexity of the project. (Lenders of Record may submit a complete application instead of a pre-application; however, the pre-application provides some positive feedback to the community, prior to requesting the Feasibility Study.)
- If approved, RD obligates funds and issues a Conditional Commitment for Guarantee.

## Community Facilities

### Estimated Timeline: Typical Application Process

- The Lender of Record then provides the interim construction financing for development of the project.
- After construction is completed and the facility is operational, the Lender of Record requests RD to review the completed project and, if acceptable provide the Loan Note Guarantee.
- RD verifies that conditions are met and issues the Loan Note Guarantee.

## Community Facilities

### Benefits to You as a Lender

Guaranteed Community Facilities financing can result in excellent public relations with the community. As you are providing for community projects, there may be potential for additional financing within the community from business development generated through the infrastructure enhancement and stability.

## Community Facilities

### Benefits to You as a Lender

- Loans are Guaranteed against loss for up to 90%
- Loans are eligible to meet Community Reinvestment Act requirements
- Reduction in capitalization requirements.
- Loans may be sold on the secondary market through an assignment, increasing your return on investment.
- You may use your own forms, loan documents and security instruments.
- There is no maximum loan limit
- The USDA fee is a one-time fee
- Rates and terms are flexible and negotiable

## ASSET RISK MANAGEMENT CF Program Delivery Team

Anita Lopez – 916-397-9647

CA, PR, FL/VI, OH, IN, MI, WI, MN, IA, ND, SD, MO, NE, OK, IL, KY, KS

Jennifer Sass – 919-632-7027

DE/MD, GA, ME, MA/RI/CT, NJ, NY, NC, PA, SC, TN, VT/NH, VA, WV

Janice Pond – 303-656-6056

AL, AK, AZ, AR, CO, HI/WP/A. SAMOA, ID, LA, MS, MT, NV, NM, OR, TX,  
UT, WA, WY

Karla Peiffer – 515-238-6668



**USDA** United States  
Department of  
Agriculture

**Rural Development**

**We look forward to working with you!**

Anita Lopez – cell: 916-397-9647, e-mail: [anita.lopez@usda.gov](mailto:anita.lopez@usda.gov)  
 Karla Peiffer – cell 515-238-6668, email: [karla.peiffer@usda.gov](mailto:karla.peiffer@usda.gov)  
 Janice Pond – cell: 303 -656-6056, e-mail: [janice.pond@usda.gov](mailto:janice.pond@usda.gov)  
 Jennifer Sass – cell: 919-632-7027, e-mail: [jennifer.sass@usda.gov](mailto:jennifer.sass@usda.gov)

*USDA is an equal opportunity provider, employer and lender.*



**FARM SERVICE AGENCY  
GUARANTEED FARM  
LOAN PROGRAM**

Farmer Mac  
Refresher Webinar

April 25, 2019

**USDA**

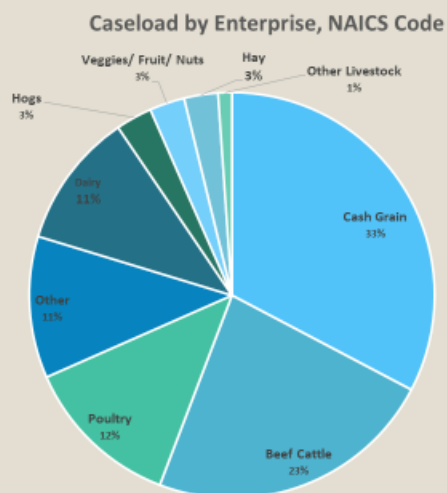
## FSA Guaranteed Loans

- Family Farms
- Production Agriculture
- Farm Ownership/ Real Estate
- Term Operating
- Lines of Credit for annual operating expenses
  
- Only farm ownership and term operating loans can be sold

*90%*



## Portfolio Distribution







## FY 19 Allocations

- GFO
  - \$2.75 B
- GOL (including LOC)
  - \$1.96 B
  - Includes \$893B carried over from 2018



## Portfolio (4/1/19)

- Total
  - \$16.5B
  - 56,434 loans
  - 20% of portfolio has been sold on the secondary market
- GFO
  - \$12.7B
  - 37,405 loans
- GOL (including LOC)
  - \$3.8B
  - 19,029 loans



## 2018 Farm Bill Changes

- Guaranteed loan limit increased to \$1.75M
- 95% guarantee for all beginning farmers and socially disadvantaged farmers
- Effective 12/20/18



## Why Get a Guarantee?

- Reduce risk
- Maintain customer base
- Increase customer base
- Improve liquidity
- Manage interest rate risk

## Selling a Loan?

- FSA-2242, Assignment of Guarantee
  - *Verify all information on the Assignment matches the Loan Guarantee and the promissory note*
  - *Forward to FSA office*
  - *Assignment must be forwarded to Farmer Mac directly from FSA*

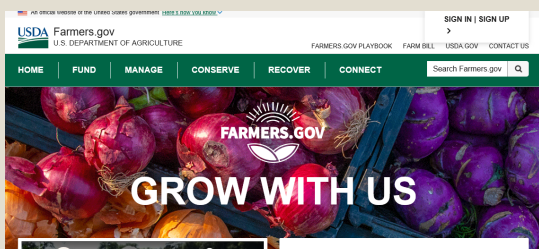
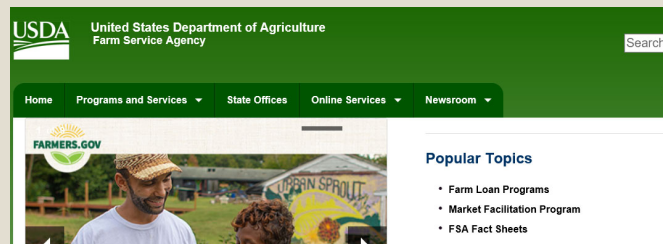
This form is available electronically. (See Page 3 for Privacy)

|   |                                      |  |  |
|---|--------------------------------------|--|--|
| <b>FSA-2242</b><br>(03-03-15)                       |                                      | <b>U.S. DEPARTMENT OF AGRICULTURE</b><br>Farm Service Agency |  |
| <b>ASSIGNMENT OF GUARANTEE</b>                      |                                      |  |  |
| <b>PART A - BACKGROUND INFORMATION</b>              |                                      |  |  |
| 1. Lender's Name and Mailing Address                | 2. Agency's Name and Mailing Address |  |  |
| 3. Holder's Name, Mailing Address and Email Address | 4. Borrower's Name                   |  |  |



## Websites

[www.fsa.gov](http://www.fsa.gov)



[www.farmers.gov](http://www.farmers.gov)



## Group Email Address

[FSAguaranteedloans@wdc.usda.gov](mailto:FSAguaranteedloans@wdc.usda.gov)



## Lender Community

The screenshot shows the USDA Connect website interface. At the top, the header includes the USDA logo and the text 'USDA CONNECT UNITED STATES DEPARTMENT OF AGRICULTURE'. Navigation links include '508 Compliance', 'Governance', 'Update Email', and 'Sign Out'. A secondary navigation bar contains 'USDA Connect', 'Home', 'Profiles', 'Communities', 'Apps', 'My NRCS', 'My FSA', 'My FSIS', and 'My OICD'. The main content area is titled 'Communities' and features the 'FSA Guaranteed Lender Community'. On the left, there's a sidebar with the FSA logo and links for 'Overview', 'Recent Updates', 'Status Updates', and 'Members'. The main content area includes a 'Community Description' welcoming members, a 'Forums' section with topics like '2-FLP, Amendment 41 Posted', 'Using the Guaranteed Lender Toolkit Web Page', and 'Fiscal Year 2018 Loan Limits', and an 'Important Bookmarks' section with links to '5-Year Treasury Rate' and 'LIBOR'. A 'Members' section shows a grid of user avatars and a link to 'View All (161 people)'.



*"Agriculture is the most  
healthful, most useful  
and most noble  
employment of man." –  
George Washington*

