

A large bison head with prominent horns is mounted on a wooden post. The bison's head is the central focus, with its horns curving upwards and outwards. The background features a sunset sky with orange and blue hues, and a body of water with white-capped waves. In the foreground, two tipis are visible, one on the left and one on the right, both made of light-colored material. The overall scene is a traditional Native American setting.

*Indian Affairs*

LOAN GUARANTY PROGRAM

*Indian Affairs*

*Loan Guaranty Program*

25 U.S.C. 1481 *et seq.*

25 CFR Part 103

# *What are the requirements for Lenders?*

All Lenders must sign a Loan Guaranty Agreement to participate in Indian Affairs Loan Guaranty Program.

# *Lender Requirements:*

The Lender must be:

- ✓ Capable of evaluating and servicing loans in accordance with prudent industry standards;
- ✓ Regularly engaged in making loans; and
- ✓ Reasonably acceptable to Indian Affairs

# *What are Lender benefits of using a guarantee?*

- Lending opportunities to Indian individuals, entities and Tribes
- Loan security up to 90 percent
- Allows Lender to use its own loan documents – only one required form to complete
- Borrower may qualify for interest subsidy to assist in cash flow for up to five years

# *What are lender benefits of using a guarantee?*

- Guaranteed portion does not count against lending limits
- Guaranteed portion can be sold to make new loans
- Lender can participate large loans
- Help meet Community Reinvestment Act requirements
- Liquidation is optional in case of default

# How does a Lender apply for a loan guaranty?

- ✓ Sign a Loan Guaranty Agreement with Indian Affairs if new to the Program.
- ✓ Submit an application to the office serving the *borrower's* location.

# *What does a Lender need to submit to request a loan guarantee?*

- Form 5-4755 - Request for Loan Guarantee.
- Lender's credit analysis of the business, repayment ability and collateral
- Explanation of why the guarantee is needed, plus
  - Minimum acceptable guarantee percentage, and
  - Request for interest subsidy, if applicable
- Current credit bureau report on borrower

Copy of the Lender's commitment letter to borrower showing loan amount, purpose, interest rate, payment schedule, collateral, insurance, and the Lender's terms and conditions for funding.

# ***What does a Lender need to submit?***

- Estimate of Lender fees and costs
- Borrower's loan application, business plan, and description of equity
- Other requirements as applicable for
  - Construction, renovation or demolition
  - Refinancing
- Copy of proposed loan documents

# *Borrower Eligibility*

The borrower must be :

- ❖ an Indian individual;
- ❖ an Indian-owned business entity, with a structure acceptable to Indian Affairs;
- ❖ a Tribal enterprise; or
- ❖ a Tribe

# *Borrower Eligibility*

- ❖ An Indian individual means:
  - ❑ Member of a federally recognized Tribe
- ❖ An Indian-owned business entity, with a structure acceptable to Indian Affairs means:
  - ❑ Legally established entity such as partnership, corporation, limited liability corporation, or joint venture that is 51% or more owned by eligible Indians

# *Borrower Eligibility*

- ❖ A borrower's business must be at least 51% Indian owned at all times
- ❖ A borrower's business must contribute to the economy of a Reservation or Tribal Service Area

# Borrower Eligibility

- The borrower must have 20 percent equity in the business
- In the form of cash or unencumbered assets
- To be used in the business

# *How large a loan can be guaranteed?*

By statute:

- Indian Affairs can guarantee a loan of up to \$500,000 for an individual Indian.

By policy:

- Indian Affairs can guarantee a loan of up to \$5 million for an eligible Indian owned business entity.
- Indian Affairs can guarantee larger amounts for a Tribe or Tribal owned business.

# *What percentage does Indian Affairs guarantee?*

Up to 90 percent of the outstanding principal, interest, and authorized charges associated with the loan can be guaranteed.

*What is the fee for a loan  
guarantee?*

Indian Affairs charges 2% of the  
guaranteed portion of the  
original loan amount.

## Example

**\$1,000,000 loan with a 90% guaranty carries a premium of :**

$$\text{\$1,000,000} \times .9 \times .02 = \text{\$18,000.}$$

**Lenders may recover this premium by:**

- A one-time charge to the borrower, or**
- Adding this amount to the guaranteed principal balance of the loan.**

# *Are there any restrictions on what Indian Affairs can guarantee?*

➤ By policy, Indian Affairs does not guarantee gaming loans

❑ But may guarantee loans to enterprises related to gaming such as hotels and golf courses

By policy, Indian Affairs does not guarantee housing loans (loans to individuals to buy a home)

➤ Indian Affairs can now guarantee loans to non-profit organizations including Community Development Financial Institutions (CDFI)

# *Features*

- Term of loan – the loan cannot be for more than 30 years, including extensions.
- Interest rate – the interest rate must be reasonable, comparable to rates charged in the area for loans to similar businesses.

# *Features*

- ▶ Borrowers apply to Lenders. Lenders apply to Indian Affairs for a guaranty.

# *Interest Subsidy*

Interest subsidy is reimbursement to the borrower for part of the interest payments the borrower has made on a guaranteed loan.

Borrowers are eligible for interest subsidy, based on need.

# *What is Interest Subsidy?*

- ❖ Reimbursement from Indian Affairs equal to a portion of the interest a borrower actually pays
  - Can be paid for up to 5 years
    - Initial three year term
    - Yearly renewal for two more years, if business qualifies
- ❖ Interest subsidy payments are based on the difference between:
  - Lender's interest rate (can be variable)
  - Indian Financing Act interest rate (fixed over life of subsidy)

# What are the eligibility requirements for interest subsidy?

- ❖ Interest subsidy payments are available to borrowers whose projected or historical earnings, before interest and taxes, is less than industry norm.

# Eligibility for interest subsidy (25 CFR §103.20)

- ❖ Lenders apply for interest subsidy on behalf of borrowers

# How does a lender request interest subsidy?

- ❖ Determine that the borrower qualifies - EBIT less than industry norm
- ❖ Request interest subsidy at time of lender's request for loan guaranty

# Who gets the subsidy payment?

- ❖ The borrower gets the payment. The lender has already received its full payment according to the repayment schedule.
- ❖ The borrower may use the funds to reduce principal, increase operating capital, or similar purposes for the business.

*Office of Indian Energy and  
Economic Development  
Division of Capital Investment*

**Lakewood, Colorado Office**

**720 407-0610**

**Billings, Montana Office:**

**406 247-7963**

**[www.IndianAffairs.gov/IEED](http://www.IndianAffairs.gov/IEED)**



