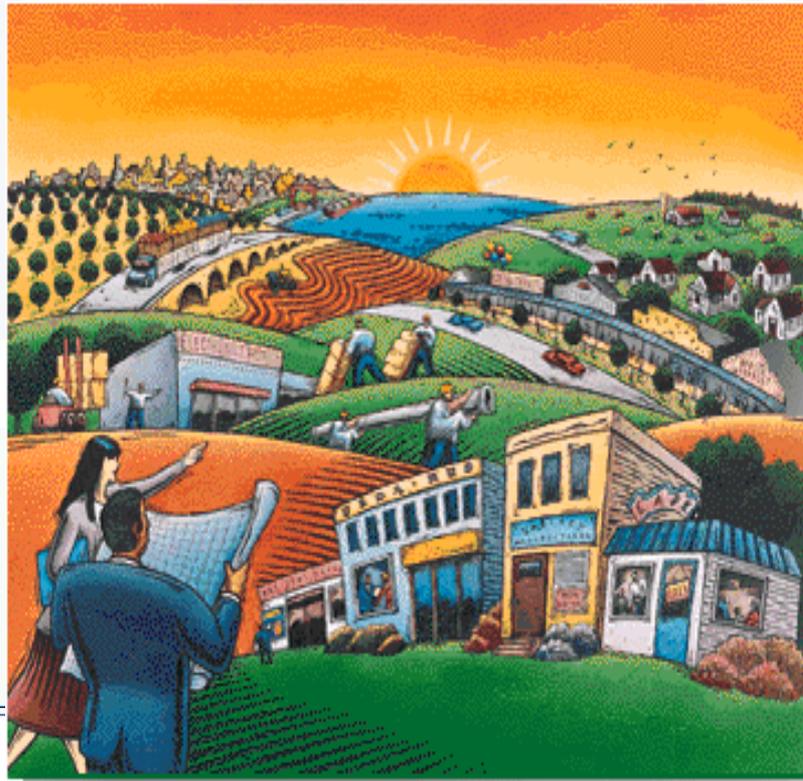


USDA



Rural Development



Committed to the future of rural communities.

Business & Industry Loan Guarantees (B&I)

These are loan guarantees with an upper loan limit of \$25 million. There is no lower limit. Quality loans (not marginal or substandard) are made by lenders to businesses which save or create jobs or improve the economic climate in rural areas.

Until September 30, 2010: \$1.7 billion in ARRA (“stimulus”) money is available.





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Reasons for a guarantee:

1. Risk reduction (startups, a large expansions, unproven products, inexperienced management, refinance)
2. Guaranteed portion does not count against loan limits. A smaller bank may not have to find a participant for the loan.
3. The guaranteed portion can be sold in the secondary market, earning the bank a greater return on its investment and replenishing deposits.

Rural Areas

- A rural area is other than an urban area of 50,000 or more in population and its adjacent urbanized areas, as determined by the latest federal decennial census. Rural area determinations can be made by accessing the following website:
<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>



Non-rural Areas

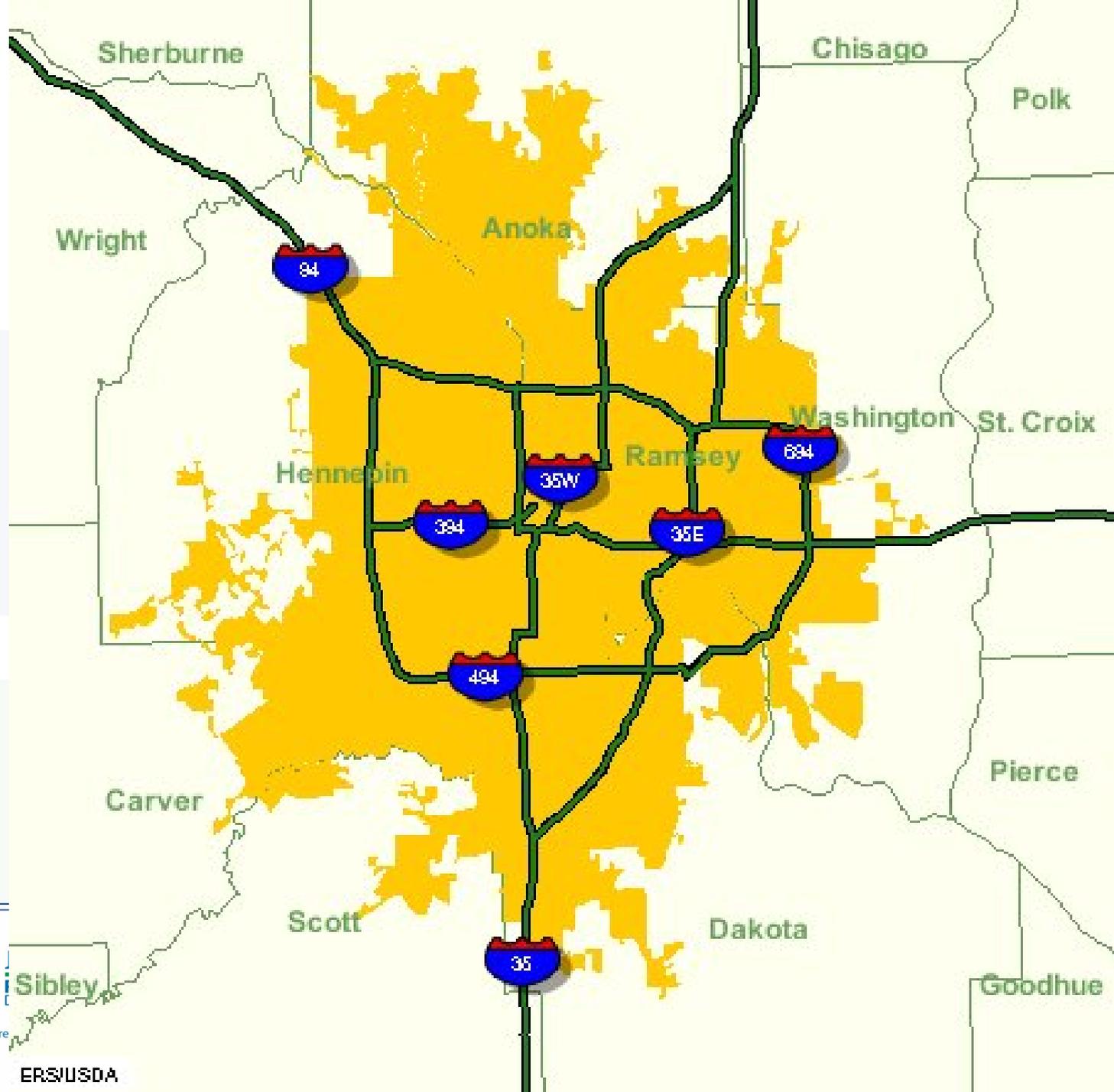
<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

- Twin Cities area
- Duluth
- Rochester
- St. Cloud
- Moorhead (pop = 32,177; Fargo = 90,599)
- La Crescent (pop = 4,923; La Crosse = 51,818)

Rural Area:

- East Grand Forks: 7,501; Grand Forks: 49,341





Sibley

Committed to the future

ERS/USDA

Percent of Guarantee

The percent of guarantee is negotiated with the Agency. The maximum is generally:

80% for loans up to \$5 million

70% for loans between \$5 and \$10 million; and

60% for loans above \$10 million.

Up to 90% guarantees on ARRA loans of up to \$10 million.



Rates and Terms

Rates and Terms are negotiated between lender and borrower. Rates may be fixed or variable. Maximum term:

- working capital is 7 years
- machinery and equipment is 15 years
- real estate is 30 years

Guarantee Fees

- USDA Rural Development charges a one-time, up-front fee of 2% of the amount guaranteed. On a \$1 million loan with an 80% guarantee, the fee would be $\$800,000 \times 2\% = \$16,000$.
- There is also an annual fee of $\frac{1}{4}$ of 1% of the guaranteed portion of the unpaid principal balance.
- ARRA loans: a 1% guarantee fee only.

Equity

- A minimum of 20% tangible balance sheet equity is required on a new business and 10% on an existing business. For energy projects, 25% to 40%. Real estate holding companies and operating companies must be considered as one.
- Financial statements by the borrower must be provided at least annually and in accordance with Generally Accepted Accounting Principles (GAAP).

Collateral

- Collateral must be sufficient after discounting in accordance with the bank's normal policies.
- Real property will be appraised in accordance with USPAP and FIRREA
- All collateral must secure the entire loan.
- Collateral value is distinct from equity value

Ineligible Purposes

- Housing that is owner-occupied or eligible for USDA rental assistance programs.
- Most agricultural production
- Golf courses
- Debt refinance or transfer of ownership unless needed to save jobs
- Lines of credit
- Charitable, fraternal or church organizations
- Gambling
- Lease payments
- Balloons

Some of our Projects

car dealerships
hog processing
motorcycle mfg.
hardware stores
machine shops
food processing
airplane mfg.
pool table mfg.
convenience stores
gas stations
ethanol plants
sugar beet plant
cooperative stock
paving stone mfg.
sawmill

wild rice processing
implement dealers
farm elevators
vegetable canning
natural gas line extensions
livestock auction facility
commercial rental buildings
hotels/motels
farm implement mfg.
internet service provider
publishing company
grocery stores & restaurants
retail carpet
auto parts supply
hybrid corn processing and sales



Lender's Responsibility

- To service the loan as it would any non-guaranteed loan in its portfolio...
- ... As a reasonable and prudent lender would.

Secondary Market

Advantages:

- Liquidity during high loan demand relative to deposits
- Servicing fee/Premium income

A Niche?

“The trouble with smaller banks is they only run across a deal once in a while that fits the B&I program. Bigger banks don't do deals that would require that amount of paperwork and knowledge. So you're caught between a rock and a hard place.”

-- a Lender



The Sweet Spot

The Sweet Spot:

- \$500,000 to \$7,500,000 loan (Minnesota's authority)
- > 10% tangible balance sheet equity per GAAP
- Expansion (RE, M&E); working capital; limited refinance
- Owner has successful track record
- Realistic projections and assumptions
- Time enough to do it right



Further Information

- General information: www.rurdev.usda.gov/rbs/busp/bpdir.htm
- Program regulations: rdinit.usda.gov/regs/regs_toc.html
- Minnesota web site: www.rurdev.usda.gov/mn
- E-forms: http://rdinit.usda.gov/regs/regs_toc.html
- State Office Address: USDA Rural Development, Suite 410, 375 Jackson Street, St. Paul, MN 55101.
Phone: 651-602-7814

