

Comparison of the USDA Rural Development and U.S. Small Business Administration Business Loans

The U.S. Department of Agriculture’s Rural Development (RD) mission area and the U.S. Small Business Administration (SBA), an independent federal agency, provide loans for business start-up and development. This guide can help you chose the RD or SBA program that can meet your business needs and goals.

	<u>RD Business and Industry Loan Guarantees</u>	<u>RD Rural Energy for America Program Loans</u>	<u>SBA Standard 7(a) Loans</u>	<u>SBA 504 Loans</u>
Loan Purpose	To purchase or improve commercial real estate, business acquisitions, machinery, equipment, fixtures, debt refinance, inventory, and / or provide working capital	Provides loan guarantees and grants to eligible agricultural producers and rural small businesses to help fund renewable energy systems, or to make energy efficiency improvements	To purchase or improve commercial real estate, business acquisitions, machinery, equipment, fixtures, debt refinance, inventory, and / or provide working capital	Purchase, construct or improve commercial real estate, purchase long-term machinery, or debt refinancing as part of a business expansion with new facilities or equipment. Loans are made by Certified Development Companies (CDC) that partner with SBA
Loan Limit	Up to \$25 million	Up to \$25 million	Up to \$5 million	Up to \$5 million based on most projects. Renewable energy, reduction in energy consumption, and manufacturing; up to \$5.5 million per project
Guarantee Percentage	• 80 percent on loans up to \$25 million	• 80 percent for loans up to \$25 million	<ul style="list-style-type: none"> • 85 percent on loans up to \$150,000 • 75 percent on loans over \$150,000 • 90 percent for international trade-export working capital loans • Up to 90 percent for export express 	No guarantee—loan has a senior lender loan for 50 percent of the project, a SBA/CDC subordinate loan of 40 percent, and borrower equity of 10 percent (a '504') SBA guarantees the debenture that funds the SBA/CDC loan
Fee on the Guaranteed portion	• 3 percent fee on guaranteed portion of loan	• 1 percent fee on guaranteed portion of loan	<ul style="list-style-type: none"> • 2 percent for loans of \$125,000 to \$150,000 • 3 percent for loans \$150,000 to \$700,000 • 3.5 percent of the guaranteed portion for loans over \$700,000 up to \$1,000,000. Plus 3.75 percent of the guaranteed portion over \$1,000,000 • .25 percent for loans with a maturity of 12 months or less. This fee may be passed on to the borrower after loan disbursement 	Borrower paid CDC fees included in loan
Renewal/ Servicing Fee	.5 percent	.25 percent	Renewal fees are not permitted. Annual servicing fee charged to lender based on .55 percent of outstanding principal. This fee may not be passed on to the borrower	Annual service fee range of .642 percent to .682 percent for the debenture
Renewal Fee Payment	Can be charged to the borrower	Can be charged to the borrower	N/A	N/A
Prohibited Fees	Lender fees must be reasonable	Lender fees must be reasonable	Processing fees, origination fees, application fees, points, brokerage fees, bonus points and other fees are prohibited	All fees are rolled into the CDC debenture
Eligible Lenders	Traditional lenders, federal or state-chartered banks, farm credit banks, other Farm Credit System institutions with direct lending authority, banks that serve cooperatives, savings and loan associations, mortgage companies that are part of a bank holding company, and credit unions	Traditional lenders, federal or state-chartered banks, farm credit banks, other Farm Credit System institutions with direct lending authority, banks that serve cooperatives, savings and loan associations, mortgage companies that are part of a bank holding company, and credit unions	Federal and state-chartered banks, savings banks, credit unions, and SBA supervised lenders	Banks and other lenders finance the senior lien, CDC authorized by SBA make the debenture loan
Eligible Borrowers	For-profit business, cooperatives, individuals and Tribal entities, and nonprofit entities with an operating business	Agricultural producers or rural small businesses	For-profit businesses that meet SBA size standards as small	For-profit businesses that meet SBA size standards as small

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Eligibility Area	Any area of a state except cities or towns with populations greater than 50,000, or any urbanized area located next to such a city or town	Any area of a state except cities or towns with populations greater than 50,000, or any urbanized area located next to such a city or town. Agricultural producers may be located in non-rural areas	United States and its protectorates	United States and its protectorates
Maximum Loan Term	Useful life of the assets pledged as collateral	Useful life of the assets pledged as collateral	<ul style="list-style-type: none"> • Real estate–25 years • Working capital and fixed assets–10 years 	<ul style="list-style-type: none"> • Real estate–25 years • Equipment–10 years
Interest Rate	Interest rate must be considered reasonable, and can adjust with any published rate, but not more frequently than on a quarterly basis	Interest rate must be considered reasonable, and can adjust with any published rate, but not more frequently than on a quarterly basis	<ul style="list-style-type: none"> • Maximum adjustable rate of base rate + 2.75 percent for loans with maturities of 7-years or more, base + 2.25 percent for loans with maturities less than 7-years • Additional 1 percent for loans of \$50,000 or less • Additional 2 percent for loans of \$25,000 or less • Fixed-rate maximums published periodically 	<ul style="list-style-type: none"> • Lender–customary commercial loan terms • CDC–fixed rate for the term of the loan
Prepayment	Cannot be prohibited. Lender may charge customary prepayment penalties	Cannot be prohibited. Lender may charge customary prepayment penalties	A subsidy recoupment fee is charged for the first 3 years for loan maturities of 15 years or longer	Declining penalty over ten years of the loan term
Equity Requirement	<ul style="list-style-type: none"> • 10 percent equity for existing business • 10 percent equity for new businesses with contracts adequate to meet debt service • 20 percent for all other new businesses • Higher equity requirements if warranted 	A financial contribution in the project of not less than 25 percent of total eligible project costs	Start-up businesses and business acquisition need a minimum of 10 percent equity injection, otherwise, limited minimum equity requirements	Minimum of 10 percent–up to 20 percent equity depending on the age of the business and type of property being financed
Guarantors	Except for passive investors, guarantees from any person or entity owning 20 percent or more of the borrower entity	Except for passive investors, guarantees from any person or entity owning 20 percent or more of the borrower entity	Guarantees from any person or entity owning 20 percent or more of the borrower entity, and any others deemed critical by the lender or SBA	Guarantees from any person or entity owning 20 percent or more of the borrower entity, and any others deemed critical by the lender or SBA
Collateral Requirements	Collateral, on a discounted basis, must be at least equal to the loan amount	Collateral, on a discounted basis, must be at least equal to the loan amount	<ul style="list-style-type: none"> • First lien on assets being financed for all loans over \$25,000; • Lenders follow their own policy for loans \$25,000 up to and including \$350,000, but must take a lien on applicant's (business) fixed assets • For loans over \$350,000 a lien on applicant's business assets and personal real estate of the principals until loan is fully secured 	SBA has second lien on the project being financed behind third party lender's first
Business Size Standard	None	Agriculture producers must derive 50 percent or more of their gross income from agricultural products	Limited to SBA defined "small business" based on their North American Industry Classification System (NAICS) code, annual revenues or number of employees	Limited to SBA defined "small business" based on their NAICS code, annual revenues or number of employees
Servicing Requirements	<ul style="list-style-type: none"> • Semi-annual lender reporting online • Annual lender visits • Borrower site visits as needed 	<ul style="list-style-type: none"> • Semi-annual lender reporting online • Annual lender visits • Borrower site visits as needed 	Monthly lender reporting online	CDC provides quarterly reporting online
Applications	Submit USDA approved multi-state lender applications to the national office. Submit all other lender applications through your local Rural Development office	Submit USDA approved multi-state lender applications to the national office. Submit all other lender applications through your local Rural Development office	Lender submits all applications electronically	CDC submits all applications electronically
Other Items	Projects designated as local foods projects can be located in non-rural areas	For a renewable energy system project in which a residence is closely associated with the borrower, the borrower must demonstrate that 51 percent or greater of the energy to be generated will benefit the borrower's business operation	<p>For-profit businesses only. Borrower must occupy at least 51 percent of the subject property for real estate loans</p> <p>Secondary market sale of guarantees are made through a sole-source fiscal transfer agent</p>	<p>For-profit businesses only. Borrower must occupy at least 51 percent of the subject property for real estate loans</p> <p>Create or retain one job per \$65,000 guaranteed by the SBA, or one job per \$100,000 for small manufacturers</p>