Bosley: Exploring USDA Loan Benefits vs. SBA Products

by **Woodalls Campground Magazine** — June 12, 2025 in **Education Corner**, **Top Story** 0

The **United States Department of Agriculture** (USDA) Rural Development Business and Industry Guaranteed Loan Program aims to bolster the economic vitality of rural communities by facilitating easier access to business capital through loan guarantees. By doing so, this federal initiative reduces the risk for commercial lenders, making it feasible for them to offer affordable financing to rural businesses.

Notably, all loans issued under this program are backed by an 80% guarantee, fostering confidence among lenders.

Compared to Small Business Administration (SBA) loans, one standout advantage of the USDA Business and Industry (B&I) Loan Program is the significantly higher loan balance it offers, reaching up to $25 million. The other advantage is that the SBA loans cap at $5 or $10 million, and no other loans can be approved until balances are repaid. USDA loans do not have this limitation, so that multiple USDA loans can be approved for the same borrower.


Paul Bosley

Randy Sims, Waco East Jellystone Park franchisee in Groesbeck, Texas

Randy Sims says he had six term sheets sitting at various banks to apply for an SBA-guaranteed loan.

“I was pulling my hair out,” he noted.

Banks weren’t getting back to him, and as the delays mounted, so did his construction costs. It turned out he had already begun construction on his campground before applying, and under SBA rules, he learned that would be one reason to disqualify him.

Another would be the land on which the campground will sit. The campground is a joint venture between him and his father’s trust, and the property is in the trust. The SBA would not consider that part of his equity injection.

“So, many people I talked to initially had discouraged me from looking at a USDA-guaranteed loan,” he noted. “They told me there were too many restrictions, and that it would be difficult.”

For Sims, it was just the opposite experience.

“It turns out there are a lot of misconceptions around the USDA program,” he said.

He was approved in July 2023 for his loan. In fact, the two things that were disqualifying under the SBA rules — the land in his father’s trust and construction already underway — were not a problem for the USDA program.

The USDA program was just easier for him, Sims reported.

Plus, “the USDA has a higher loan limit,” he explained. “If I had gotten an SBA loan, it would have been capped at $5 million. Because of the cost of inflation, this is going to be closer to $10 million for me.”

And, he has a short-term loan on the project, and the USDA loan will refinance that, too, he said.

“I am doing construction in a rural area, and this is working out very well for me,” Sims noted.

His project is about 30 miles outside of Waco, Texas, a larger metropolitan area, but it falls into a county with about 22,000 people. He is targeting a late 2025 opening for his campground.

When determining eligibility for a USDA loan, potential borrowers can initiate the process by inputting their project address into the USDA Income and Property Eligibility Site. Specifically, navigating to the OneRD Loan Guaranteed tab is essential.

As a general guideline, regions classified as rural and situated outside cities or towns with populations exceeding 50,000 inhabitants are eligible for USDA loans. It’s worth noting that the borrower’s main office may be located within a larger urban center, as long as the project’s address falls within an eligible rural area.

Given that the central focus is on fostering business development within rural areas, a diverse range of business entities can access USDA financing. The program extends its support to profit and non-profit businesses, cooperatives, federally recognized Tribes, public bodies, and individuals with existing or proposed business engagements.

In the case of individual borrowers, U.S. citizenship or lawful permanent residence status is necessary. This inclusive approach, accommodating a variety of applicant types, distinguishes USDA loans from SBA loans, further enhancing their appeal.

Michael Oppel, vice president and USDA Government Guaranteed Loan Officer of Stone Bank

For larger projects, “loans where you are buying the dirt and doing construction, that’s where the USDA is efficient,” Michael Oppel said. “If it is a leasehold, that’s better suited to the SBA.”

The USDA program allows banks to provide financing up to $25 million in many industries, not just farming operations. The Rural Development operations of the USDA can finance all kinds of businesses like hotels, campgrounds, convenience stores, non-owner-occupied properties, rental properties, energy projects and water projects.

Through a separate program, Rural Development can finance community and municipal buildings.

For larger franchise operators, being able to access a higher amount is also convenient, said Oppel.

“Let’s say you have 10 different loans with 10 different banks, those loans will mature at different times,” he explained. “You will need to deal with the bank, the paperwork, underwriting and signing documents 10 different times. It’s annoying and time-consuming for the borrower when they would rather be running their business than dealing with the bank.”

If a borrower can streamline their debt into fewer USDA loans it “will save them a considerable amount of time.”

Oppel’s advice to franchise operators is to work with someone who specializes in USDA loans.

“Work with someone who has insights into the rules and who has contacts within the agency,” he said.

“Those advisors or bankers can carve through the regulations faster, and they can ease the tensions of working with a government program,” Oppel noted.

USDA Loan Characteristics vs. SBA & Commercial Loans

USDA loans typically offer up to a 30-year repayment term, which is a major advantage of USDA loans over SBA loans. Since the loan must be approved by the lender and the USDA district office, and in some cases, the loans also must be approved by the USDA national office, the loan process takes longer, which is a disadvantage of USDA loan compared with SBA 7(a) loans with preferred lending partners of the SBA.

For SBA, all projects require an equity injection of no less than 10% of the total project cost, which includes working capital to pay bills in the early stages before the new business is profitable. The percentage of equity injection is determined by the USDA equity injection matrix and could be up to 25% for new businesses involving construction. The source of the equity injection can come from almost any source, from liquid assets, pledged property, co-borrower liquidity and assets, and even grants and subordinated debt.

Collateral must have documented value sufficient to protect the interest of the lender and the Agency. Lenders will discount collateral consistent with a sound loan-to-value policy, with the discounted collateral value at least equal to the loan amount. The lender must provide satisfactory justification for the discounts being used.

Hazard insurance is required on collateral (equal to the loan amount or depreciated replacement value, whichever is less).

The USDA charges an initial guarantee fee, currently 3% of the guaranteed amount, which can be financed into the loan, plus an additional 0.50% construction fee on those projects involving construction, also paid to the USDA. There is an annual USDA guarantee retention fee, currently 0.55% of the guaranteed portion of the outstanding principal balance, which is paid annually and usually escrowed with your loan payment.

Reasonable and customary fees for loan origination are negotiated between the borrower and lender and can also be financed into the proposed loan.

Interest rates are negotiated between the lender and borrower. Rates may be fixed or variable; however, variable interest rates may not be adjusted more often than quarterly. As a rule, USDA loans typically offer lower annual percentage rates when compared to SBA loans, which is another advantage of USDA loans.

The USDA Loan Process

The USDA loan process holds unique requirements tailored to this program. Initial steps resemble those of SBA loans, involving the submission of personal and business information. Owners with over 20% equity in the business must provide personal data, including three years of tax returns, financial statements, resume, and tax returns for affiliated businesses.

Lenders provide an application form covering personal credit and project overview. Business specifics entail a business plan, financial projections, and use/sources of funds.

For startups or expansions, third-party feasibility studies are mandatory, addressing Economic, Market, Technical, Financial, and Management feasibility, as per Appendix A of the 5001 OneRD Regulations. Note, not everyone can do this, and a specialist is required here. It is best to talk to your lender and ask for a recommendation before spending money on these reports.

A Phase I environmental report is essential for all projects. New construction or disruptive expansions necessitate a Phase I, Intergovernmental Review, and Environmental Assessment. Environmental review takes around three months and can run parallel to underwriting and feasibility study.

Further rules apply to floodplain or wetland projects. Again, it is best to let the lender lead this effort as bank and financing regulations need to show an arms-length report.

Once underwriting begins, after the feasibility is completed and the environmental is nearly finished, underwriting should wrap up in 2-3 weeks, varying with the bank’s workload. The underwriter engages with the borrower for clarification or extra documents, aiming to comprehend business operations and assumptions.

Remember, underwriters generally cooperate to grasp your business plan — it’s a collaborative, not adversarial, process.

USDA LOAN PROCESS

#	STAGES	PERSON RESPONSIBLE	NOTES

# 1	Initial Vetting/ Prequalification	Borrower & Lender	If qualified, 1-2 weeks with full vetting package, Term Sheet Issued
# 2	Gathering Docs	Borrower & Lender	All docs needed for underwriting, including GC bid
# 3	Environmental Study	Lender	Must follow the National Environmental Protection Act (NEPA) takes 3 months (Can be done concurrently with feasibility study and underwriting.)
# 4	Feasibility Study	Borrower	Tell vendor will be applying for a USDA loan – Must be within 1 year of loan closing (Can be done concurrently with environmental study and underwriting.)
# 5	Underwriting	Borrower & Lender	Commitment Letter – 2 – 3 weeks (Can be done concurrently with environmental study and Feasibility Study.)
# 6	Packaging	Borrower & Lender	Loan moved to closing processor and USDA Packaging. Bank should take 3-5 days unless additional documents are required of the borrower
# 7	USDA Submission	Lender	Send the entire package to the USDA – 4-16 weeks. (Can be done concurrently with closing items such as document gathering, title work, and document preparation.)
# 8	Closing	Lender	If no closing work is completed until the USDA approves the loan, there will be an additional 4 weeks of closing. If work is completed while the USDA approves the loan, we can usually close in a few days after USDA approval.

The above graph offers an overview of the USDA loan process, showing each step from the initial loan application until the loan closes. It is important to partner with Lenders and Brokers who have experience in the USDA B&I Loan Program to ensure your project has the highest chance of success and money is not wasted.

For more information, visit **www.businessfinancedepot.com**. If you have any additional questions, please email Paul Bosley at **paul@businessfinancedepot.com** or call 800-788-3884 or Michael Oppel at **moppel@stonebank.com** or call 912-552-3389.

This column was written by Paul Bosley. Bosley is the founder of Business Finance Depot and is known for his expertise in the RV parks and glamping industries.

Share 128
Tweet 80

Previous Post
Yadkin Valley RV Resort to Host its Grand Opening on July 1

Next Post
China's Industrial Strategy Triggers Supply Chain Warning

Please login to join discussion