

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 choose the RD or SBA program that can meet your business needs and goals.

	<u>RD Business & 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	Purchase/improve commercial real estate, business acquisitions, machinery, equipment, fixtures, debt refinance, inventory, working capital	Guaranteed loans and grants to agricultural producers and rural small businesses for renewable energy systems or to make energy efficiency improvements	Purchase/improve commercial real estate, business acquisitions, machinery, equipment, fixtures, debt refinance, inventory, 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% on loans up to \$25 million	• 85% for loans up to \$25 million	<ul style="list-style-type: none"> • 85% on loans up to \$150,000 • 75% on loans over \$150,000 • 90% for international trade-export working capital loans • Up to 90% for export express 	No guarantee—loan has a senior lender loan for 50% of the project, a SBA/CDC subordinate loan of 40%, and borrower equity of 10% (a '504') SBA guarantees the debenture that funds the SBA/CDC loan
Fee on the Guaranteed portion	3% fee on guaranteed portion of loan	1% fee on guaranteed portion of loan	<ul style="list-style-type: none"> • 2% for loans of \$125,000 to \$150,000 • 3% for loans \$150,000 to \$700,000 • 3.5% of the guaranteed portion for loans over \$700,000 up to \$1,000,000. Plus 3.75% of the guaranteed portion over \$1,000,000 • .25% 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%	.25%	Renewal fees are not permitted. Annual servicing fee charged to lender based on .55% of outstanding principal. This fee may not be passed on to the borrower	Annual service fee range of .642% to .682% 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 & 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 for 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 for 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 & Tribal entities, and non-profit 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	Rural areas: any area of a State other than a city or town that has a population of greater than 50,000 inhabitants and any urbanized area contiguous and adjacent to such a city or town	Rural areas with a population under 50,000 and not adjacent to an urbanized area. Agricultural producers may be located in non-rural areas subject to production requirements	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 & fixed assets—10 years 	<ul style="list-style-type: none"> • Real estate—25 years • Equipment—10 years
Interest Rate	Interest rate must be 'reasonable,' and can adjust with any published rate but no more frequently than quarterly	Interest rate must be 'reasonable,' and can adjust with any national or regional published rate but no more frequently than quarterly	<ul style="list-style-type: none"> • Maximum adjustable rate of base rate + 2.75% for loans with maturities of 7-years or more, base + 2.25% for loans with maturities less than 7-years • Additional 1% for loans of \$50,000 or less. Additional 2% 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 1 st 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% equity for existing business • 10% equity for new businesses w/contracts adequate to meet debt service • 20% for all other new businesses • Higher equity requirements if warranted 	A financial contribution in the project of not less than 25% of total eligible project costs	Start-up businesses and business acquisition need a minimum of 10% equity injection, otherwise, limited minimum equity requirements	Minimum of 10%—up to 20% 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% or more of the borrower entity	Except for passive investors, guarantees from any person or entity owning 20% or more of the borrower entity	Guarantees from any person or entity owning 20% or more of the borrower entity, and any others deemed critical by lender/SBA	Guarantees from any person or entity owning 20% or more of the borrower entity, and any others deemed critical by lender/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"> • 1st 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	Agricultural producers must derive 50% or greater 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	USDA approved multi-state lender applications delivered to National Office; all other lender applications delivered to local RD staff	USDA approved multi-state lender applications delivered to National Office; all other lender applications delivered to local RD staff	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% or greater of the energy to be generated will benefit the borrower's business operation Secondary market sale of guarantees can be sold to a number of entities at the discretion of the lender	For-profit businesses only. Borrower must occupy at least 51% of the subject property for real estate loans Secondary market sale of guarantees are made through a sole-source fiscal transfer agent	For-profit businesses only. Borrower must occupy at least 51% of the subject property for real estate loans Create or retain one job per \$65,000 guaranteed by the SBA, or one job per \$100,000 for small manufacturers