



USDA Loan Guarantee Programs: Benefits and Opportunities for Lenders

**Silicon Valley Bank Clean Tech Group Presentation
December 8, 2010**

Mission Statement

Westar Trade Resources is committed to assisting clients to develop sustainable businesses in three ways:

Sustainable Ecology - Providing solutions that protect, preserve and enhance the environment for the needs of today without detracting from the capability to provide for the needs of future generations.

Sustainable Technology - Developing new and improved sustainable technologies that can provide technical solutions for a wide range of problems and also create new opportunities.

Sustainable Profitability - Creating long-term financial stability by developing and executing cost-effective financing solutions, risk strategies, and an adequate capital base.



Business development services include:

Planning

- Feasibility Studies
- Business Plans
- Site Selection
- Feedstock Sourcing

Developing

- Marketing Development
- Off-take Contracts
- Product Development
- International Marketing,
Development & Financing

Financing

- Traditional Financing
- Non-Traditional Financing
- USDA & DOE Loan Guarantees
- Government Grants
- OPIC and Ex-Im Bank Financing
- Governmental Liaisons



USDA Loan Guarantee Programs: Benefits and Opportunities for Lenders

Program Overview

- USDA 9003 Biorefinery Loan Guarantee Program
- USDA 9007 Energy Grant and Loan Guarantee Program
- USDA Business and Industry Loan Guarantee Program

Benefits to Lenders

Opportunities In the Marketplace

Competition

Q & A



USDA 9003 Biorefinery Loan Guarantee Program

Authorized under the 2007 Farm Bill – Energy Title

Five rounds of funding – 2 rounds authorized, 2 rounds in process.

Final round will open up by January 1 - \$300 million

Loan Guarantees up to \$250 million

Anticipate changes to the program in this round to include:

- No restriction on foreign ownership
- Bond funding
- Lender of record to hold 5% of unguaranteed portion
- No restriction on urban sites
- No restriction on interest rates between guaranteed and unguaranteed portions of loan



USDA 9007 Energy Grant and Loan Guarantee Program

Purpose: help agricultural producers and rural small businesses purchase and install renewable energy systems and make energy efficiency improvements in rural areas.

Authorized under the 2007 Farm Bill – Energy Title

Five rounds of funding – 4 authorized

Final round will open up by January 1 - \$60 million

Loan Guarantees up to \$25 million, can be combined with USDA B & I Program for up to \$25 million for total of \$50 million.

Grants up to 25% of project cost up to \$500,000



USDA 9007 Energy Grant and Loan Guarantee Program

Type of Assistance

Federal guarantee for lenders on loans for eligible energy projects:

- 85% (maximum) guarantee on loans up to \$600,000
- 80% (maximum) guarantee on loans from \$600,000-\$5 million
- 70% (maximum) guarantee on loans from \$5-10 million
- 60% (maximum) guarantee on loans from \$10-25 million

Interest Rate, Term, Payment Structure, and Fees

Rate: Lender's customary commercial interest rate – negotiated by lender and business . Fixed or variable (but may not vary more often than quarterly)

Term:

- Working capital – 7 years maximum
- Equipment – 20 years maximum (not to exceed useful life of collateral)
- Real estate – 30 years maximum (not to exceed useful life of collateral)



USDA 9007 Energy Grant and Loan Guarantee Program

Borrower Eligibility

- Project must be in a rural area – any area other than a city or town that has a population of greater than 50,000 inhabitants and the urbanized area contiguous and adjacent to such city or town as defined by the latest decennial census of the United States.
- <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=rbs>
- Agricultural producer (individual or entity) directly engaged in the production of agricultural products
- Rural small business
- Private entity including a sole proprietorship, partnership, corporation, and a cooperative
- Electric utility, including a Tribal or governmental electric utility



USDA 9007 Energy Grant and Loan Guarantee Program

Authorized Use of Loan Funds

- Land, real estate improvements, retrofitting, equipment, working capital – for new or existing renewable energy projects. (e.g. biofuel, biomass, anaerobic digester, solar, wind, geothermal) or energy efficiency projects.
- Energy audits, technical reports, feasibility study costs, other fees including loan fees and costs.

Loan Limitations

- REAP projects must be financially feasible and have established technical merit. Only commercially-available or pre-commercial technologies can be financed. No experimental or unproven systems.
- The replacement of an existing facility in order to achieve greater energy efficiency may be financed only when retrofitting cannot provide as great an energy benefit, as demonstrated in an energy audit.



USDA Business and Industry Loan Guarantee Program

Purpose: Encourage the commercial financing of rural businesses, thereby:

- Creating and saving rural jobs
- improving the economic and environmental climate of rural communities

Authorized under Business and Cooperative Programs

Program is open year-round

Loan Guarantees up to \$25 million



USDA Business and Industry Loan Guarantee Program

Type of Assistance

Federal guarantee for lenders on loans for eligible energy projects:

- 80% (maximum) guarantee on loans from \$1-\$5 million
- 70% (maximum) guarantee on loans from \$5-10 million
- 60% (maximum) guarantee on loans from \$10-25 million

Interest Rate, Term, Payment Structure, and Fees

Rate: Lender's customary commercial interest rate – negotiated by lender and business . Fixed or variable (but may not vary more often than quarterly)

Term:

- Working capital – 7 years maximum
- Equipment – 20 years maximum (not to exceed useful life of collateral)
- Real estate – 30 years maximum (not to exceed useful life of collateral)



USDA Business and Industry Loan Guarantee Program

Borrower Eligibility

- Most types of enterprises qualify – manufacturing, wholesale, retail, service –new or existing.
- Project must be in a rural area – any area other than a city or town that has a population of greater than 50,000 inhabitants and the urbanized area contiguous and adjacent to such city or town as defined by the latest decennial census of the United States.
- <http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do?pageAction=rbs>
- Proprietorships, partnerships, corporations, LLC's, coops, trusts, nonprofits, tribes, public bodies
- Majority ownership must be held by US citizens or permanent residents.
- Any ownership by government or military employees must be less than 20%.



USDA Business and Industry Loan Guarantee Program

Ineligible Businesses

- Owner-occupied and rental housing projects (Housing site development may be eligible.)
- Golf courses, racetracks, and gambling facilities
- Lending, investment, and insurance companies
- Projects involving more than \$1 million and the relocation of 50 or more jobs



Benefits to Lenders

- There is an active secondary market for USDA loan guarantees (e.g., SBA markets)
- The guaranteed portion of the loan is protected against loss by a Federal guarantee.
- The guaranteed portion of the loan does not count against lending limits.
- USDA loan guarantees help lenders satisfy Community Reinvestment Act (CRA) requirements.



Opportunities in the Marketplace

Customer base – many clean tech projects are located in rural areas for close proximity to feedstocks, etc.

Default risk reduction – locating a project in a rural area can allow for the use of the loan guarantee and provide credit enhancement to the project

Diversity – wide variety of projects can be funded

Private-Public Partnership – USDA is very loyal to participating banks, will refer projects and work closely to assure success

Bank risk reduction – development of a portfolio of these loans is a good investment

Additional profitability – guaranteed portion of the loan can be sold in the secondary market for 8-10% premium, lender can continue to service the entire loan and collect fees for doing so

Use of Bonds -allows for bank to act as lender of record for large loans to earn servicing fees and retain customer base without the risk of syndication



Competition

Top 10 B&I Lenders in FY 2009

- Ridgestone Bank - \$53,202,000
- Excel National Bank - \$41,628,100
- Borrego Springs Bank - \$33,945,000
- Community South Bank - \$29,022,100
- American Trust & Savings Bank - \$25,054,500
- American Bank of St. Paul - \$25,046,832
- High Trust Bank - \$24,579,193
- Plains State Bank - \$22,713,000
- Bank of the West - \$21,510,000
- Business Carolina, Inc. - \$20,270,000



Competition

Top 11 B&I Lenders in FY 2010 by number of loans:

Borrego Springs Bank	\$34,313,500	18
Excel National Bank	\$41,628,500	15
Ridgestone Bank	\$53,202,000	13
Mountain West Bank	\$ 7,589,734	10
Community South Bank	\$29,022,100	9
Home Loan Investment Bank	\$18,403,500	9
Excel National Bank	\$16,374,200	7
Plains State Bank	\$22,713,800	7
Santa Cruz County Bank	\$18,780,800	7
Business Carolina, Inc.	\$20,270,000	6
Celtic Bank	\$12,805,000	6

Questions and Answers

Q & A



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