USDA Food Supply Chain Guaranteed Loan Program

Introduction

On December 8, 2021, USDA announced its latest American Rescue Act funded effort, the Food Supply Chain Guaranteed Loan Program. This program will provide $1 billion in guaranteed loans to "facilitate financing for the start-up or expansion of activities in the middle of the food supply chain, particularly the aggregation, processing, manufacturing, storing, transporting, wholesaling, or distribution of food, to increase capacity and help create a more resilient, diverse, and secure U.S. food supply chain." USDA outlined three priority outcome goals for this program:

1. Catalyzing economic recovery within disadvantaged rural communities impacted by the COVID-19 pandemic.
2. Ensuring all rural residents are able to equitably access and/or benefit from Rural Development (RD) programs and funded projects.
3. Reducing climate pollution and increasing resilience to the impacts of climate change through economic support to rural communities.

Lending organizations that will be eligible to make guaranteed loans through this program include federal and state-chartered banks, savings and loan associations, farm credit banks with direct lending authority, and credit unions. The maximum guaranteed loan amount allowed in this program is $40 million, with a 90% guarantee for fixed interest rate loans, and an 80% guarantee for all other loans. Critically, all applications will be accepted and processed without regard to the availability of credit from any other source.

To that end, **USDA has put special priority on lending to entities seeking to establish facilities that increase the regional availability of slaughter and initial processing services for meat and poultry producers**, reserving 19% of the allocated loan guarantees for such applications for the next six months. USDA has also instituted safeguards within the program to ensure that funded projects increase overall competition within an ever consolidating meat sector.

The summary guide below distills the most relevant details for potential borrowers from multiple published USDA sources, and will be updated as new or altered information emerges. All USDA and other sources used are also linked below.

USDA Links

- Food Supply Chain Guaranteed Loan Program Detailed Document
- Food Supply Chain Guaranteed Loan Program Webpage
- USDA Fact Sheet
- Feasibility Study Guidelines
- USDA Priority Points Information

USDA Food Supply Chain Guaranteed Loan Program Details

Borrower Eligibility

Borrowing entities must be one of the following:

- Cooperative
- For-profit or non-profit businesses
- Federally recognized tribal groups
- Public bodies
- Food supply chain entrepreneurs

Borrowing entities must also meet the following eligibility requirements:

- Must be an enterprise engaged or proposing to engage in commercial food product project(s) by aggregating, processing, manufacturing, storing, transporting, wholesaling, or distributing food (or one that has contractual, lease, or service agreements with such business(es)).
- Meat, poultry, or egg producer applicants must comply with USDA FSIS. Other food producers must comply with the FDA.
- Borrowers must not hold a market share greater than or equal to the entity that holds the fourth largest share of that market for the species addressed in the application.
- Individual borrowers must be U.S. Citizens or green card holders.
- All applications for assistance will be accepted and processed without regard to the availability of credit from any other source.

General Fund Usage Eligibility

Borrowers must demonstrate that loan funds will remain in the United States and that loan funds will support the start-up or expansion of activities in the middle of the food supply chain, particularly the aggregation, processing, manufacturing, storage, transportation, wholesaling, or distribution of food, to increase capacity and help create a more resilient, diverse, and secure U.S. food supply chain. Eligible fund usages include:

- Purchase and development of land, buildings, or infrastructure for public or private commercial enterprises or industrial properties, including expansion or modernization.
- Leasehold improvements when the lease contains no reverter clauses or restrictive clauses that would impair the use or value of the property as security for the loan. The term of the lease must be equal to or greater than the term of the loan.
- Constructing or equipping facilities for lease to public or private enterprises engaged in commercial or industrial operations. Financing for mixed-use properties, involving both commercial business and residential space, is authorized provided that at least 50 percent of the building’s projected revenue will be generated from food supply chain related business uses.
- Purchase of machinery and equipment.
- Pollution control and abatement as related to transportation, waste management and other activities related to otherwise eligible projects.
- Startup costs, working capital, inventory, and supplies in the form of a permanent working capital term loan.

There are also a number of financial maneuvers that may be conducted with guaranteed loan funds. Funds may be used to refinance existing debt when it is determined that the project is viable and refinancing is necessary to improve cash flow or obtain appropriate lien positions. Unless the amount to be refinanced is owed directly to the federal government or is federally guaranteed, no more than 50 percent of loan funds may be used to refinance existing debt. Purchase of stocks, bonds, and other financial instruments to obtain a loan from Farm Credit System institutions and other lenders is allowed, provided such purchase is required for all their borrowers and is the minimum amount required.

Cooperative Stock Purchasing Program

The Food Supply Chain Guaranteed Loan Program contains some specific details related to fund usage by farmer or worker cooperatives. In general, loan funds may be used to facilitate the purchase of cooperative stock by individual farmers or ranchers within a farmer or rancher cooperative established for the purpose of processing an agricultural commodity, or the purchase of stock in a business by employees forming an Employee Stock Ownership Plan or worker cooperative. The cooperative must use the proceeds from the stock sale for eligible uses of loan funds described above. The cooperative may contract for services to process agricultural commodities or otherwise process value-added agricultural products during the five-year period beginning on the operation startup date of the cooperative in order to provide adequate time for the planning and construction of the processing facility of the cooperative. Regarding employee ownership succession, USDA may guarantee loans for conversions of businesses to either cooperatives or ESOP within five years from the date of initial transfer of stock.

Application Information

Loan applicants will be provided with a USDA approved application form by their lending institution, and will have to complete a credit evaluation, and provide environmental information required to complete an environmental review. Lenders will be required to submit an evaluation of prospective borrowers' applications, the requirements of which are outlined in pages 52-57 of the program's Federal Register Notice.

Required Financial Statements

- Current Agency-acceptable balance sheet and year-to-date income statements of the borrower, affiliated entities with business relationships, and any guarantor(s) dated within 90 days of submission of the complete application.
- Historical balance sheet, income statements, and cash flow statements of the borrower for the lesser of the last three fiscal years or all years of operation
- Projected balance sheets, income statements, and cash flow statements or a financial model starting from the current financial statements through a minimum of two years of the project performing at full operational capacity or stable operations. Based on the type of project or at the discretion of the USDA, financial projections or models may be required from current financial statements up to the end of the term of the guaranteed loan. Financial projections must be supported by a list of assumptions showing the basis for the projections. Projected financial statements must include a pro-forma balance sheet projected for guaranteed loan closing.

- Operational cash flow projections on a quarterly basis from the current financial statements through start-up or occupancy for projects involving construction when lenders are requesting the loan note guarantee prior to completion of construction.
- Current credit reports or the equivalent on the borrower, any payment guarantors and any person or entity owning greater than a 20 percent or more interest in the borrower or controls the borrower, except for passive investors and those corporations listed on a major stock exchange. A credit report or its equivalent are not required for elected and appointed officials when the borrower is a public body, or Indian Tribe, or for members of a non-profit organization. Credit reports must be submitted to the Agency for all applications for guaranteed loans in the amount of $200,000 or more. For lenders that are submitting smaller requests, the lender must keep the credit report on file with the lender's application.

Executive Summary

The executive summary must include a description of the business and project; the names of any corporate parent, affiliates, and subsidiaries with a description of the relationship; description of how the project will increase the capacity or make the food supply chain more resilient, diverse, or secure; and address how the borrower or project, as applicable, meet the criteria for priority scoring (described below).

Feasibility Study

A feasibility study of the proposed project, by a qualified consultant, is required. At a minimum, a feasibility study that reaches an overall conclusion as to the business' chance of success.The feasibility study should also address and quantify how the project will increase capacity or make the food supply chain more resilient, diverse, or secure, and verify that the venture will not be associated with any entities that hold a market share greater than or equal to the fourth largest share of the market for the species subject to the proposed financing. For more information, the USDA has published a specific fact sheet on feasibility study guidelines. Feasibility should be assessed in the following areas:

- Economic Feasibility as determined by a cost-benefit analysis.
- Market Feasibility as determined by an analysis of the current and future market potential, competition, sales or service estimations including current and prospective buyers or users.
- Technical Feasibility as determined by an analysis of the reliability of the technology to be used, and of the modes of delivery of goods or services, including transportation, business location, and the need for technology, materials, and labor.
- Financial Feasibility as determined by an analysis of the operation's potential to achieve sufficient income, credit, and cash flow to financially sustain the project over the long term and meet all debt obligations.
- Management Feasibility as determined by an analysis of the legal structure of the business or operation; qualifications of those holding ownership or board membership, and management analysis.
- Supply Chain and Safety factors, including impacts on the food supply chain, affected agricultural producers, and the safety of staff, customers, and other stakeholders.

Priority Scoring
USDA will consider applications in the order they are received. Preference between equal applications will be given to qualified veterans. If available funding is less than what is requested by applications under consideration, the USDA will score each eligible application based on the point system with a maximum of 115 points that can be awarded in the categories listed in the table below. More information on these priority categories can be found here.

Category	**Points**
Project is located in or serving a county (or equivalent) with a top 10% county risk score as listed in the COVID-19 Economic Risk Assessment Dashboard.	8
Project is located in or serving a community with score 0.75 or above on the CDC Social Vulnerability Index Map, List, or Search Tool.	8
Either: (A) Project is located in or serving coal, oil and gas, and power plant communities whose economic well-being ranks more than 80 on the Distressed Communities Index Map, List, or Search Tool or (B) Applicants demonstrate through written narrative how proposed climate-impact projects improve the livelihoods of community residents and meet pollution mitigation or clean energy goals.	8
Project is located in a city or county with a current unemployment rate, as determined by the Department of Labor, of 125% of the State-wide rate or greater. Or, for projects located in certain territories that may not have unemployment rates by localities, the applicant will receive priority points if the applicant's proposed service area has an unemployment rate exceeding 125% of the national unemployment rate as determined by the Bureau of Labor Statistics.	5
Project is located within the boundaries of a federally recognized tribal reservation, within tribal trust lands, or within land owned by an Alaska Native Regional or Village Corporation as defined by the Alaska Native Claims Settlement Act.	5
Project's industry is not already present in the local community.	20
Project is locally owned and managed. (The primary residence of the applicant must be located within the normal commuting area of the guaranteed loan project.)	21
Project creates or saves a minimum of five permanent jobs with an average wage exceeding 200% of the Federal minimum wage.	15
Project offers a healthcare benefits package to all employees and pays at least 50% of the healthcare premium.	10
Borrower ensures and certifies to the lender that all laborers and mechanics employed by contractors or subcontractors in the performance of construction work financed in whole or in part with guaranteed loan funds under this Notice are paid wages at rates not less than those prevailing on similar construction in the locality as determined by the Secretary of Labor in Sec. 3141-3147, Title 40 U.S.C.	15
Total Possible Points:	115