

RD AN No. 3974 (4279-B)
April 26, 2004

SUBJECT: Business and Industry Guaranteed Loan Program
Feasibility Studies and Project Feasibility

TO: State Directors, Rural Development

ATTN: Business Programs Directors

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance and clarification regarding the importance of a properly completed feasibility study. Guidance is also provided on when a feasibility study should be required as provided under RD Instruction 4279-B, section 4279.150.

COMPARISON WITH PREVIOUS AN:

This updates and replaces RD AN No. 3825 (4279-B), "Feasibility Studies," which expired February 29, 2004.

IMPLEMENTATION RESPONSIBILITIES:

A business plan and a feasibility study are very different. A business plan, which may be prepared by the business itself, is a plan of all aspects of a business' operation. A feasibility study, which must be prepared by a qualified, independent consultant, is an evaluation of the chances of success in terms of economic, market, technical, financial, and management feasibility. RD Instruction 4279-B, Appendix A, contains the minimum components of an acceptable feasibility study. The feasibility study should reach a conclusion as to the overall potential success of the business.

EXPIRATION DATE:
April 30, 2005

FILING INSTRUCTIONS:
Preceding RD Instruction 4279-B

Although RD Instruction 4279-B, section 4279.150, states that an independent feasibility study may be required, it is strongly suggested that one be obtained on all startups, on existing businesses entering a new market area, and on existing businesses where the loan will result in a significant expansion of the business, unless such projects will not significantly affect the borrower's operations. You should ensure that the lender completes its own careful analysis and evaluation of submitted feasibility studies to determine if the study meets Agency requirements and to determine the potential success of the business. The Agency should also review the feasibility study, to ensure that it contains the components required by the regulations.

In certain cases, a specific site has not been chosen at the time the feasibility study is completed. In these cases, the study should identify specific attributes of a site that are necessary for the project to be successful (i.e., infrastructure, location, size). In these limited cases, in order to present a meaningful feasibility study, the business plan submitted with the application must contain adequate information on the specific site selected for the project. The applicant, lender, and the Agency are responsible for reviewing the site to determine that it meets the attributes outlined in the feasibility study. The Agency review does not relieve the lender of its responsibilities under the terms of the regulations, Form 4279-4, "Lender's Agreement Business and Industry Guaranteed Loan Program," Form 4279-5, "Loan Note Guarantee," and Form 4279-6, "Assignment Guarantee Agreement." In limited, complex cases when the Agency cannot determine the selected site meets specific attributes identified in the feasibility study, a third-party may be required to evaluate the site to determine it meets the requirements identified in the independent feasibility study. However, in cases where the site has been chosen, the feasibility study should assess the feasibility of the specific site as part of the overall feasibility of the project.

Recently, we have reviewed several projects that are proposed to be completed in phases. Phased projects must stand alone, generate cash flow to meet the repayment obligations of the phase being financed, and have adequate collateral coverage. If the phases are dependent upon one another for success, the project is to be considered as one and the loan amounts combined to determine the maximum percentage of guarantee in accordance with RD Instruction 4279-B, section 4279.119(b).

If you have any questions, please contact the Business and Industry Division at (202) 690-4103.

(Signed by John Rosso)

JOHN ROSSO
Administrator
Rural Business-Cooperative Service