

FACT SHEET

RURAL BUSINESS INVESTMENT PROGRAM

Background

- An amendment to the Farm Bill directed the USDA to establish a Rural Business Investment Program (RBIP) to promote economic development and job creation in rural areas.
- The USDA and the SBA entered into an interagency agreement to design and manage the program together.

Overall Size and Cost of the Program

- RBIP program and administrative costs will be paid for from the funds of USDA's Commodity Credit Corporation.
- Under the President's FY 2005 budget request, a total of \$60 million in RBIP debentures guarantees would be made available the program.
- Such funding will support the creation of three RBICs, each with required private equity capital of \$10 million and another \$20 million of government-guaranteed debentures.

Grant Assistance

- Each licensed RBIC will receive \$1 million of Operational Assistance grant funding to provide technical assistance to qualified enterprises in which the RBIC either has invested or intends to invest.
- There will be no requirement for matching funds to receive the grant.

Size and Scope of RBIC Investments

- RBICs may invest only in "enterprises," which are individuals or legal entities engaged in a business or commercial activity, regardless of whether they are operating for profit or are subject to any legal restrictions on the distribution of profits to their owners, members, or suppliers of their equity or quasi-equity

capital. Enterprises include public, private, or cooperative for-profit or non-profit organizations, and for-profit or non-profit businesses controlled by an Indian tribe on a Federal or State reservation or other federally recognized Indian tribal group.

- At least 75% of a RBIC's investments measured both by dollars invested and number must be made in enterprises whose principal office is located in a rural area (i.e., outside a standard metropolitan statistical area or within a community with a population of 50,000 or less) at the time of the financing.
- No more than 10% of a RBIC's investments measured both by number and dollars invested may be in enterprises whose principal office is located in a urban area (a city, or equivalent geographic area, having a population of more than 150,000) at the time of the financing.
- At least 50% of a RBIC's investments (measured both by number and dollars invested) must be in "smaller enterprises," which are enterprises with a maximum net worth of \$6 million and net income of \$2 million in the prior two years, at the time of the financing. At least 50% of these investments (measured by both number and dollars invested) must be in smaller enterprises that also qualify as small business concerns.
- The balance of a RBIC's investments can be made in any other enterprise, regardless of its size.
- The SBA will make available an electronic mapping tool to assist in the identification of rural and urban areas and the location of enterprises.
- RBIC applicants must demonstrate how they would assist their targeted rural areas through disciplined, profit-oriented investing and the deployment of grant funding.

Structure and Funding of RBICs

- Compensation of a RBIC's management team will be a matter of negotiation between investors and fund management, and is subject to USDA/SBA approval.

- The maximum annual management fee is 2.5% of the sum of the face amount of a RBIC's private equity plus debenture commitments from the government.
- The government's debenture guarantee commitment (leverage) to a RBIC will be outstanding for five years from the date the RBIC is licensed (i.e., the typical investment period of a venture fund).
- During this initial investment period, a RBIC will have the option of issuing either discounted or standard debentures, each with a term of ten years. Individual debentures will be priced at the time of issuance and relate to a market standard, such as 10-year Treasury bills.
- The government-guaranteed debentures will be placed directly with one or more institutional investors.
- A "just in time" funding mechanism will be used to permit RBICs ready access to cash from the debentures.
- The government will not receive any profit participation from RBICs, but will charge RBICs fees.

Screening, Evaluation, and Licensing of RBICs

- USDA/SBA will use license application forms and procedures modeled after those used in the SBIC program to screen, evaluate, and approve RBIC licenses in a competitive selection process.
- The USDA and the SBA put paramount importance on the selection of qualified RBIC management teams to help protect taxpayers against poor fund performance and to demonstrate effective program results.
- The RBIP initial review process will therefore focus on whether prospective management teams have demonstrated a history of positive realized track records of superior returns to their investors and strong experience in managing private equity funds.
- The RBIP will use a Management Assessment Questionnaire (MAQ) as the primary diligence document, accompanied by preliminary reference checks and financial analysis performed by the SBA's Investment Division staff.

- A RBIC applicant also will present its business plan, including specific information on how it will find and make investments, add value as an active investor, and successfully exit its investments.
- Those RBIC applicants that meet initial review hurdles will qualify to be scored and ranked by panels of USDA/SBA reviewers using common, objective standards.
- Under the competitive selection process, RBIC applicants will also submit detailed information concerning their economic development experience, including how they will work with community-based organizations and how grant assistance may be used. Such experience will be evaluated in the context of how it may augment (but not substitute for) a management team's private equity track record and fund management experience.
- RBIC applicants with the highest panel scores will be interviewed by a USDA/SBA Portfolio Committee.
- Final selection will be made jointly by the USDA and the SBA. Those selected applicants that raise their required amount of private capital and complete all fund legal documentation within prescribed time periods will receive a license to operate as a RBIC.

Implementing the RBIP

- RBIC selections and debenture guarantee commitments can be made starting in FY 2005.
- Detailed information on the RBIP, including information, materials, and instructions concerning application for the program, can be found on SBA's website at <http://www.sba.gov/INV/RBIP>.