

The Division of Ag Development administers the **RURAL DEVELOPMENT LOAN PARTICIPATION PROGRAM** to work with local lenders in financing value-added production, processing, and marketing business ventures and enterprises.

**PROGRAM DETAILS:** The Loan Participation Program is intended to supplement existing credit, not supplant it. Thus, loans will be administered and serviced through local lenders, with the Agriculture Enterprise Office providing up to 80% of the total amount of a loan with a maximum loan participation of \$500,000 for eligible costs; including land needed for the project; buildings and improvements; and machinery/equipment. The interest rate charged by the Agriculture Enterprise Office for a given loan will be set by the Secretary of Agriculture. The maximum length of a loan is 10 years.

**PROJECT ELIGIBILITY:** Projects eligible for this loan participation include those, which demonstrate the potential of adding value to, or creating innovative uses for, South Dakota agricultural products, especially those of which there is a surplus. The program may also be used in developing viable new agricultural products and subsequent markets or enhancing the economic viability of the applicant or the rural community. All projects must demonstrate a positive projected cash flow.

The program may NOT be used to refinance existing debt or participate in a line of credit. The program may not be used to construct, purchase, or renovate a personal dwelling. Neither may the program be used for a farm real estate loan, livestock loan, or farm-operating loan. If you have questions about the eligibility of a project, you are advised to contact the department or your local lender.

**APPLICANT ELIGIBILITY:** To be eligible, an individual must live in South Dakota at the time of loan closing, be at least 18 years old, and have derived at least 60% of their income in the past tax year from farming. A majority of the farming operation must be located within South Dakota. A person who has discontinued their farming operation within the past 12 months may be eligible if 60% of their income in the last tax year was from farming.

Additionally, eligible applicants must be credit worthy, according to the standards of their local lender and must be unable to provide necessary financing from their own resources or from conventional sources at reasonable rate/term.

Corporations, cooperatives, partnerships, or other legal entities may also be eligible if a majority of the members meet the above criteria. In these instances, a majority of the services provided by the enterprise must be for the benefit of farmers. Rural Rehabilitation funds may only be allowed for that portion of the enterprise represented by farmers; thus, non-farmer members of such entity must furnish their proportional share of the costs of the operation.

## **THE APPLICATION FORM**

You must fill out the loan application form in conjunction with the local lender's application, since that is where your loan will be serviced.

PLEASE TYPE OR PRINT – your name, social security or taxpayer identification number, address, phone number, and the county in which you live. Then check whether this application is for an individual, partnership, family farm corporation, or some other legal entity. If you check "other" please explain.

**ANTICIPATED COST OF PROJECT** – Estimate the entire cost of your proposed venture, including the value of assets you will be bringing into the enterprise.

**AMOUNT OF LOAN** – Under this section, please specify how much you anticipate borrowing from your local lender, from the Agriculture Enterprise Office, and from other sources.

**CAPITAL INVESTMENT BY APPLICANT** – The value of your equity in the enterprise. This includes the amount of cash, as well as the value of other assets you are bringing into the enterprise.

**ITEMIZED USE OF LOAN PROCEEDS** – Please provide cost estimates for each of the items asked for.

**COLLATERAL SUMMARY** – List the cost, the value of existing liens, and the appraised value for each item used as collateral for this loan.

Sign and date the application form. Also, the additional signed and dated documents you will need to provide with your application form include:

- A current financial statement. If the applicant is a partnership, all partners should include a financial statement. If the applicant is a corporation, all individuals owning 20% or more stock in the corporation will need to include a financial statement. If the applicant is a cooperative, include a financial statement for the cooperative.
- Tax records for the past three years. These include your 1040, 1040F, and other pertinent tax forms.
- Projected cash flow statements for your enterprise, for a minimum of 12 Months.
- Your business plan and marketing plan.
- Other supporting documents that may help assess your project.

**LENDING INSTITUTION** – The local lender you are working with on this project. If your loan is approved, the Lending Institution and Agriculture Enterprise Office will execute a “Participation Agreement” for your loan. Thus, it is necessary that you work with your local lender in all phases of this project.

**BRIEFLY DESCRIBE THE PURPOSE OF THIS LOAN** – State what your business or enterprise will be, what products or services you will sell, and what the borrowed money will be used for.

### **“FAILING TO PLAN IS PLANNING TO FAIL”**

One of the first things you will need to do is to write up a business plan for your enterprise. It is essential that you specify your goals and objectives and how you are going to achieve them. Spell out why you are going into business, how your business will be run, what your markets are, who your customers are, whether or not your business will be feasible, and so on. Any additional information you provide will help when evaluating your loan application.

Keep in mind that you might not be able to completely answer all of the questions at this point. This does not mean that your potential venture will fail or that your loan application will

automatically be denied. It does indicate that professional assistance may be needed to clarify segments of your plan to improve your chances for success.

Interrelated with your business plan is your marketing plan. There is no reason for you to be in business if you cannot sell your product or service. Creating your marketing plan may be the most difficult part of your application, yet it is probably the most crucial.

Numerous resources are available to help you with your business plan. Five "Small Business Development Centers" are located throughout the state; there is also the Governor's Office of Economic Development in Pierre. Additionally, you may access volunteers through the Service Corps of Retired Executives (SCORE) or Active Corps of Executives (ACE) program through either the Small Business Authority or the Department of Agriculture. If you would like help through any of these programs, please feel free to call the Department of Agriculture.

After your business and marketing plans are complete, you should be able to determine the financial needs of your venture and whether borrowing money is necessary. If borrowing money is necessary, then you are ready to proceed with the next part of the application process.

If you have any questions concerning the application and closing procedures, please contact the South Dakota Department of Agriculture, Division of Ag Development at 605 773-5436.