**Section 640.90 Department Technical Review**

Each application will be reviewed by the Department to assure compliance with the technical program requirements as specified in subsections (a) through (d) of this Section.

a) Loan Project Type – The application will be evaluated to assure that:

1) the loan project meets the requirements for a Rural Diversification Project or an Agricultural Diversification Project as defined in Section 640.30 of this Part;

2) the entity meets the conditions outlined as an eligible loan applicant as contained in Section 640.40 of this Part;

3) that the rural business or agribusiness costs being funded are allowable expenses as defined in Section 640.50 of this Part; and

4) that applicant certifications in accordance with Section 640.130 of this Part have been signed.

b) Evidence of Need for Loan Program Funding – The applicant must show *the essential need which must be documented for agricultural or rural diversification financing as evidenced by* (Section 6(b)(i) of the Act):

1) the project's *inability to acquire financing from other State authorities or agencies* (Section 6(b)(i) of the Act) with proof, such as a denial letter, failure to respond within the applicable program(s)' specified time frame(s), identification of the project's ineligibility for other public programs or other evidence that other State and federal program funding has been considered;

2) calculation showing the *rate of return* is below the average return on investment for the company or industry, or similar evidence showing Department participation is needed at an interest rate and term which makes the project viable;

3) compelling economic benefit to the State for the business project because of *interstate competition for facilities* (Section 6(b)(i) of the Act); or

4) lender documentation that capital is not available to complete the project.

c) Leverage Financing – The rural business or agribusiness must:

1) *Provide a minimum of fifteen (15) percent of the equity in the project* (Section 7(c) of the Act);

2) Show evidence that the loan will be leveraged with other funds such that *program financing covers no more than 25 percent of the total costs of the diversification project unless the Director of the Department waives the 25 percent limitation* (Section 7(c) of the Act) in accordance with Section 640.110.

d) Financial Statements – The applicant's financial statements, including annual balance sheets and profit and loss statements for the past three years as well as an interim statement not more than ninety (90) days old; actual and pro forma income statements; a three-year projected balance sheet and profit and loss statement as well as a one-year monthly cash flow statement will be reviewed through a standard credit analysis. This credit analysis will determine the financial viability of the business as compared to similar data for the industry using the 1990 "RMA Annual Statement Studies" (published by Robert Morris Associates, P.O. Box 8500, S-1140, Philadelphia, PA 19178) if such commerce or industry is evaluated by this source. The application must:

1) Demonstrate liquidity and debt coverage for the project showing that balance sheet indicators support the project size; that days receivable, days payable, and inventory are within a normative range; and that working capital is positive.

2) Address quality of debt and debt management showing the debt-to-equity ratio is within the industry's normative range, that short-term and long-term sources and uses of funds are matched; and that contingent liabilities with parent companies, subsidiaries, partners, and other related parties will not have a material adverse effect on loan repayments.

3) Reflect positive and stable sales growth, profit margins, operating margins, and overhead, and show other positive, supportive trends and projections.

4) Show projected market prospects and earnings report that demonstrate a consistency between past performance, assumptions, and projected performance.

5) *Demonstrate a positive cash flow as evidenced by a net income before taxes of five (5) percent of the gross income of the rural business or agribusiness based on actual or projected income and expenses* (Section 7(c) of the Act).