

1589.0300 ELIGIBLE LOANS FOR SMALL BUSINESS DEVELOPMENT LOAN PROGRAM.

Subpart 1. **In general.** The board shall make small business loans to applicants in compliance with the act and parts 4305.1000 to 4305.1200 and 4307.0100 to 4307.0500 in order to help create or retain jobs for the state.

Subp. 2. **Purpose of loan.** A small business loan must be used to provide interim or long term financing for certain capital expenditures as provided in the act, and for expenditures that meet the requirements of federal industrial development bond laws, including:

- A. acquisition costs of land, buildings, or both;
- B. site preparation;
- C. construction costs;
- D. engineering costs;
- E. costs of equipment, machinery, or both;
- F. bond issuance costs;
- G. underwriting or placement fees;
- H. trustee's fees;
- I. fee of guarantor, insurer, or financial institution, other than the board, who provides letters of credit, surety bonds, or equivalent security;
- J. board fees, including application and guaranty fees of the board and administrative costs and expenses;
- K. certain contingency costs;
- L. interest costs during construction;
- M. legal fees, including those of the board's bond counsel; and
- N. debt service reserve fund.

Working capital loans are not eligible for financial assistance under this loan program.

Subp. 3. **Size of eligible loans.** The principal amount of any financial assistance in the form of bonds to be financed by the board may not be less than \$250,000, unless the applicant agrees to pay all bond issuance costs, and may not exceed the maximum amount permitted to be loaned to an eligible small business as defined in the act for the total value of eligible items listed in subpart 2.

Subp. 4. **Equity requirements.** The maximum amount of a loan for project equipment is 75 percent of the cost of the equipment, and for all other authorized project expenses is 80

percent of the cost. The applicant must contribute at least 25 percent of the cost of project equipment and at least 20 percent of all other costs. Instead of a cash equity contribution the board shall accept collateral which, if contributed to the financial assistance, would make the maximum loan percentage of the project costs for equipment equal to 75 percent and for all other authorized expenses equal 80 percent. The board may require a lower loan to project percentage based upon the economic feasibility of the application. The board may accept letters of credit or other credit enhancements as part of the equity contribution by the applicant.

Subp. 5. **Maximum term.** The maximum term of a small business development loan may not exceed the average useful life of the real property, or 80 percent of the useful life of the equipment or machinery, or the following limits, whichever is less:

- A. for real property, land, or buildings, 21 years;
- B. for equipment or machinery, 11 years;
- C. for a combination of items A and B, a weighted average of those years will be used.

Subp. 6. **Interest rate.** The board shall set interest rates at a negotiated rate that approximates the market rate of interest for securities of equivalent value at the time the bonds are initially sold.

Subp. 7. **Security requirements.** Financial assistance, either for real property or equipment, may be secured only with the best available security including one or more of the following:

A. A mortgage or other adequate security as determined by the board on the real property to be financed.

B. A lien or other adequate security as determined by the board on equipment to be financed by the board.

C. Other security as determined by the commissioner to have a value at least equal to the principal amount to be financed by the board less the value, as determined by the board, of the security provided in items A and B, if any. Other security shall be in a form and kind satisfactory to the board and may consist of some or all of the following:

- (1) a senior, junior, or parity lien on other assets of the applicant;
- (2) a senior, junior, or parity lien on assets of certain owners, officers, and affiliated persons of the applicant (including sole proprietors and their spouses, partners and their spouses, and major shareholders or corporate officers and their spouses);
- (3) a guarantee of owners, officers, and affiliated persons of the applicant (including sole proprietors and their spouses, partners and their spouses, and major

shareholders or corporate officers and their spouses), or other related entities such as subsidiaries or parent corporations of the applicant; or

(4) additional forms of security, if necessary to strengthen the board's collateral position on the financial assistance.

D. In addition to or in substitution for any of the items A to C, any guarantee or other collateral or security, as required by insurers or other providers of collateral or security with respect to the bonds, other than the board, or as required by the board in accordance with generally accepted commercial lending practices.

Statutory Authority: *MS s 41A.04*

History: *10 SR 475; L 1987 c 386 art 2 s 22,23*

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