

MICHIGAN BUSINESS GROWTH FUND LOAN PARTICIPATION PROGRAM

Typically, lenders underwrite using historical cash flows from a business to calculate debt service coverage ratios. This practice impedes the ability of businesses to expand and diversify, especially during a slow economy. The Michigan Business Growth Fund—Loan Participation Program (MBGF–LPP) was designed to address this obstacle.

The intent of the MBGF–LPP is to participate with lenders to finance diversification projects when faced with borrowers whose projected cash flows are considered speculative by the lender. The MBGF–LPP will purchase a portion of a loan from the lender and offer a grace period on the program's portion for up to 36 months. MBGF–LPP participation will be advantageous to lenders in two ways: 1) it will limit the project exposure of lenders; and 2) it will offer borrowers “free cash flow” during the grace period allowing full coverage on the lender's portion of the loan. This will enable suppliers to acquire the needed financing to diversify into new growth industries.

ELIGIBLE BORROWERS

- To qualify, a business must be engaged with a private lender for the purpose of acquiring a commercial extension of commercial credit for a diversification or expansion project and must exhibit a cash flow shortage according to the lender's analysis.
- Borrower must have no more than 750 employees, and otherwise comply with all state and federal requirements for the program.

APPLICATION

- The Michigan Economic Development Corporation (MEDC) is now accepting applications for the MBGF–LPP.
- Interested borrowers and/or lenders can contact the MEDC through the program's email address at businessloans@michigan.org. See Lender Facts and Information for more details on how to apply.

LENDER FACTS AND INFORMATION

The MBGF–LPP is one of the programs launched under the Michigan Business Growth Fund. The program is funded by federal support provided under the federal State Small Business Credit Initiative Act of 2010, and is designed to assist lenders and borrowers in financing expansion or diversification projects. Specifically the program seeks

to enable companies to acquire the necessary financing that might otherwise be unavailable due to a cash flow shortage according to the lender's analysis. The program will participate on loans with lenders to pursue this goal for approved projects. The following list of program facts and guidelines should give your lending institution the necessary information to begin the process should you encounter an opportunity to participate with us on a project.

PROGRAM GUIDELINES

Among the guidelines:

- To be eligible for the program the borrower must participate in a qualified industry: mining, manufacturing, research and development, wholesale and trade, film and digital media productions, office operations, or a business that is a qualified high technology business as described in MCL207.803(n). Generally this includes businesses dealing with most technological products and services.
- The entire proceeds of the credit facility must be used for projects within the State of Michigan.
- The program can purchase up to 49.9 percent of a new extension of commercial credit.
- The maximum participation is capped at \$5,000,000, and may not be used to support individual extensions of commercial credit of greater than \$20,000,000.
- The program can provide reduced or zero interest terms on its purchase (maximum 36 months).
- The program can provide reduced or zero principal repayment on its purchase (maximum 36 months).
- The program relies on the lender's credit, operational and financial risk assessment. The private lender acts as the “lead bank.”
- The program shall collect at its determination, from the lead bank, its credit analysis, borrower financial statements, risk rating justification, cash flows and other documents which the program deems necessary.
- The program validates that assessment and evaluates the economic development benefits to the state to determine project approval.
- The program stands as a pro rata participant with respect to collateral
- The program charges a fee at closing. This fee will typically be 1–3 percent of the MSF participation amount.

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- The program charges an annual fee. This fee will typically be 1–3 percent of the MSF amount balance at the time.
- The program may charge an exit fee or pre-payment fee if the purchase is exited prior to the resumption of standard repayment terms.
- The lead lender shall under the terms of the Loan Participation and Servicing Agreement, service, document, perfect liens, collect interest, fees and principal; and in all other aspects manage the loan.
- The lender is required to maintain, and provide access to, loan documents as would be customary in a typical participation with other parties.
- The lender must sign the State Small Business Credit Initiative Loan Participation and Servicing Agreement, which requires the lender and the borrower to sign their respective assurances.

APPLICATION PROCESS

Potential borrowers must complete a loan application with your institution. If a borrower does not meet the cash flow coverage requirements of a lender in order to obtain the targeted loan amount, the borrower may be eligible to participate in the Michigan Business Growth Fund—Loan Participation Program.

Please submit the following in order to be considered for participation:

1. The **Michigan Loan Enhancement Program Intake Form** (*click to open*)
2. The participating lender's credit approval documents including: all financial analysis, risk rating, statement spreads, cash flows, relationship and historical documentation and collateral analysis which would typically be required to adequately satisfy traditional commercial loan underwriting.

These documents, along with any questions should be directed to:

Capital Markets Development
Michigan Economic Development Corporation
Attn: Chris Cook
300 North Washington Square
Lansing, MI 48913
businessloans@michigan.org

WHAT TO EXPECT NEXT

The MEDC will be in contact in order to confirm receipt of application materials and answer any questions. We will process applications on a timely basis. The MEDC will contact the participating lending institution as soon as a decision has been reached. If approved, the participating lender will be required to sign State Small Business Credit Initiative Loan Participation and Servicing Agreement, outlining the terms of the participation. Once received, the MEDC will assist to process the MSF's payment for our portion of the loan.

We look forward to working with you!

PARTICIPATING FINANCIAL INSTITUTIONS

To date, 10 financial institutions in Michigan utilize the Loan Participation Program. More are being added as the MEDC continues to market the program statewide.

Current List of Participating Financial Institutions:

Bank of Michigan
Fifth Third Bank
Huntington National Bank
Isabella Bank
mBank
MSU Federal Credit Union
My Personal Credit Union
Talmer Bank & Trust
The Stephenson National Bank & Trust
United Bank & Trust