HOUSE RESEARCH

Bill Summary

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Subject: Small business loan guarantee program

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H.F. 611 establishes a program through which the state would guarantee up to 70 percent of the amount of money loaned to a small business. The maximum guarantee amount would be capped at $1,500,000 per loan. Loans eligible for the guarantee would be those to small businesses with fewer than 500 employees in the state, and which would be used for business purposes exclusively in Minnesota including: construction, remodeling, or renovation; leasehold improvements; land and building purchases; business acquisitions, including employee stock ownership plan financing; machinery or equipment purchases, maintenance, or repair; moving expenses; and working capital when the capital is secured by fixed assets. A guarantee would be provided only when a bank or other commercial lender provides at least 50 percent of the total amount loaned to the small business. The guarantee amount would apply only to that portion of the loan that was made by QED lender. A QED lender-a Qualified Economic Development lender-is a public or private economic development organization headquartered in Minnesota, that has at least three years of active lending experience in providing financing to small businesses in partnership with other commercial lenders, and which originates subordinated loans to small businesses for sale to the secondary market. A subordinated loan is a loan secured by a lien that is lower in priority than other specified liens.

Any loan guarantee made under this program would be subject to the following requirements:

- Principal and interest payments be applied by the loan purchaser to reduce the guaranteed and nonguaranteed portion of the loan on a proportionate basis. The nonguaranteed portion may not receive preferential treatment;
- Loan purchasers cannot accelerate repayment of the loan or exercise other remedies in the case of a default unless the borrower failed to make required principal and interest payments, the state consents in writing, or the loan guarantee agreement provided for accelerated repayment or other remedies. A loan purchaser cannot make a demand for payment under the guarantee unless the state agrees in writing;
- A written commitment exists from at least one secondary market investor to purchase the loan;
- The QED lender has timely prepared and delivered to the state each year, an audited or reviewed financial statement for the loan along with documentation that the borrower used the loan proceeds solely for purposes of its Minnesota operations;
- The commissioner of employment and economic development has access to original loan documents;

- QED lenders maintain adequate records and documents concerning the original loan so that the state may determine its financial condition and compliance with program requirements; and

- There are provisions for orderly liquidation of collateral securing the original loan in the case of a default. The commissioner would have the option to acquire the loan purchaser's interest in the assets.

A loan guarantee trust fund is established to pay for defaulted loan guarantees. Participating lenders would pay a fee equal to .25 percent of the principal amount of each guaranteed loan. DEED is directed to prepare loan guarantee application forms and administer the loan notice and application process and decide whether to provide a loan guarantee.