

EXHIBIT A

January 9, 2006

To: Council Member Lisa Goodman, Community Development Committee

Prepared by: Greg Davidson, 673-5070

Presenter in

Committee: Greg Davidson, 673-5070

Approved by: Chuck Lutz, Deputy CPED Director _____

Subject: Authorize the CPED Small Business Loan Guaranty Program

RECOMMENDATION:

- 1) Approve the guidelines (exhibit A), for the new Loan Guaranty Program. This is a public-private partnership to assist small businesses, and
- 2) Approve the attached Resolution (exhibit B) delegating authority to underwrite and execute loan guaranty agreements and supporting documentation consistent with the Loan Guaranty Program guidelines.

Previous Directives: September 2, 2005 the City Council approved authorization of a 5th amendment to contract # 16980 with the Minneapolis Consortium of Community Developers (MCCD) to include a new Loan Guaranty Program and to provide additional technical assistance funds to the MCCD.

Financial Impact (Check those that apply)

- X** No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain):
- Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (Summarize below)

Ward: City wide small business program.

Neighborhood Notification: Has been posted on the City's website for a 45 day public comment period.

City Goals: Promote public and private partnerships to enhance the city's economic and neighborhood development.

Comprehensive Plan: All loans comply.

Zoning Code: All loans comply.

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Living Wage/Job Linkage: N/A

Background/Supporting Information

A staff report of August 23, 2005 requested an amendment to Contract No.16980 with the Minneapolis Consortium of Community Developers (MCCD) to authorize a proposed emerging small business Loan Guaranty Program and provide additional funds for technical business planning assistance. The intent of the program is to offer small businesses additional access to capital especially for borrowers requesting between \$50,000 to \$150,000 from banks. New businesses requesting these amounts often find it difficult to meet bank's increasingly restrictive underwriting and credit-scoring criteria. CPED will guaranty 33% (or a maximum of \$25,000) of a bank's loan to a borrower, in addition to funds provided by the MCCD. On going business technical assistance and mentoring will be provided by the MCCD and or bank. Loans will be underwritten by: CPED staff, the MCCD, and a commercial lender. The Commercial lender will provide all loan servicing. CPED will collect a Loan Guaranty fee, similar to an origination fee, to fund future guaranteed loans.

Attachments:

- Exhibit A Loan Guaranty Program Guidelines
- Exhibit B City Council Resolution



EXHIBIT A

Loan Guaranty Program Guidelines

This program should increase access to capital for small businesses that face challenges in obtaining credit from conventional sources. Applicants should have been in business for 12 months. Using this Loan Guaranty Program, the City will partner with the Minneapolis Consortium of Community Developers (MCCD) to assist businesses to obtain bank financing. The City will provide a guaranty equal to 33% of a bank's loan, up to a maximum City Guaranty amount of \$25,000. The MCCD may provide up to \$25,000 from its existing capital sources based upon their underwriting standards. The bank may also obtain credit enhancement from the Small Business Administration (SBA) or another third party.

The bank and MCCD will verify that the borrower provided initial equity of between 10-30%. It is believed that this City guarantee, the borrower participating in on-going technical assistance (business plan monitoring and mentoring by the MCCD, the SBA's SCORE or others), and on-going monitoring and involvement between the borrower and banker, will enhance chances for business success. The borrower will be required to remain in frequent mentoring contact (at least semi-annually) with the MCCD. Should the business relocate outside of The City of Minneapolis, the loan will become immediately due.

Eligible Uses

- ▶ Working capital
- ▶ Production Contracts
- ▶ Receivables financing
- ▶ General business operations
- ▶ Inventory

Loans cannot refinance existing debt, bars, liquor stores or billboards.

Loan Types

- Term Loans: Up to 5 years on a term (or 10 years if using the MCCD's *Commercial Corridor's Impact Program*.)
- Lines of Credit (Revolving loans): The initial guaranty will be for two years, then may be extended for another 2 years upon written request by the borrower and approval by the MCCD and a lender.

Interest Rate Determined by the bank and the MCCD, not to exceed Prime plus 3%.

City Guaranty Fee The City will collect a 1% Guarantee Fee based upon the amount it guarantees (minimum fee of \$150).

Additional fees may be charged by the bank and the MCCD.

The Process Borrowers will complete the City-MCCD application (attachment A); and a bank loan application. Standard loan documentation will include: personal financial statements of borrower(s), copies of 2 years personal taxes, prior year's business financials and taxes, interim financials, a 12 month cash-flow projection, a business plan or narrative (when requested), and appropriate lien and collateral pledge agreements.

The MCCD will report to the City semi-annually on the performance of these loans. In an event a borrower is put on a bank's "watch list", the City reserves the right not to grant further guarantees.

Final approvals will be obtained from loan committees of the participating bank, the MCCD, and the City's Business Finance department.

For additional information contact

The City: **Greg Davidson** 612-673-5070 or 612-673-5094

Minneapolis Consortium of Community Developers: **Iric Nathanson** 612-789-7337 ext 14.

EXHIBIT A
Proposed Resolution
of the
City of Minneapolis

By Goodman

Delegating authority to make and execute Loan Participation Agreements and other appropriate loan documentation consistent with the Small Business Loan Guaranty Program Guidelines.

Resolved by The City Council of The City of Minneapolis:

Authority is delegated by the City Council to the Director of the Department of Community Planning and Economic Development (CPED), or his designee, the Manager of Business Finance for CPED, to make and execute Loan Participation Agreements and other appropriate loan documentation for the Loan Guaranty Program consistent with the attached Small Business Loan Guaranty Program Guidelines using forms approved by the City Attorney's Office.