Department of Development

# MINORITY BUSINESS DIRECT LOAN PROGRAM

## Program Guidelines

## I. Statement of Purpose

The **Minority Business Direct Loan Program**, (MBD Loan Program) is a business loan program that is designed to stimulate the growth of existing minority-owned businesses in the state of Ohio that are three years or older. Loans are offered at below market interest rates. The Program is part of the Minority Business Development Division's effort to promote economic development, business expansion, and job creation and/or retention by providing an alternative source of financing to minority- owned small businesses that otherwise do not have ready access to traditional lending sources.

## II. Program Funding

MBD Loan Program is funded through the Minority Business Development Division (MBDD) of the Ohio Department of Development (Development).

## III. Minority Business Direct Loan Program Parameters

A. Loan Amount: The maximum loan amount not to exceed $1,500,000, based on project merits and funding availability. The minimum loan amount is $45,000.

B. Term: Up to ten (10) years for machinery and equipment and up to fifteen (15) years on owner-occupied real estate loans. There are no prepayment penalties. There may be a blended term of 12.5 years if the loan is used for machinery and/or equipment and the purchase and/or renovation of real estate.

C. Interest Rate: Interest rate is 1.5% and will be fixed for the life of the loan unless the loan goes into default at which time the default interest rate may be 8%.

D. Equity Contribution: The borrower is required to contribute a minimum of 10% equity towards project purchases. MBDD will provide a maximum 75% contribution, with 15% participation coming from a bank, other financial institution, other third party(s) or the borrower.

E. Collateral: Development will require a first lien position or shared first lien position on all collateral.

F. Personal Guarantee: Each person with at least 20% ownership must provide a personal guarantee.

G. Fees and Credit Report: There will be a $300 application fee and a commitment fee of 1.5% of the loan amount. Development will not pull personal credit reports.

## IV. Eligibility

A. State of Ohio MBE or Ohio Minority Supplier Development Council MBE certification is required for the MBD Loan Program.

B. Demonstrate that its fixed-asset expansion/retention project will create or retain jobs for Ohioans.

C. The business must have its principal place of business and its business operations located in Ohio.

D. The applicant must demonstrate three consecutive years of revenues.

E. The applicant, its principals, or any prior business owned by its principals cannot have previously defaulted on any financial assistance provided by MBDD or Development.

F. An applicant will not be considered if Chapter 7 or Chapter 11 bankruptcy has been filed within the past three (3) years.

G. The applicant, including the business and its principals, cannot be delinquent or in default on federal, state, or local taxes or in default on any existing private or publicly financed loans. Applications will not move forward if a state tax search is performed and is not returned cleared. **Clearing state tax delinquencies does not guarantee loan approval**.

H. Ineligible business will include but not limited to investment real estate, residential homes (excluding nursing homes and assisted living facilities) lending and leasing businesses, multi- level marketing, adult entertainment, gambling, bars, breweries, and tap houses, furniture and appliance rental, and check cashing.

## V. Use of Proceeds

A. Loan proceeds may be used for:

1. machinery and equipment purchases;
2. leasehold improvements (does not include structural, HVAC, plumbing or any building exterior costs);
3. building renovations and/or new construction;
4. real estate purchases

B. Loan proceeds may not be used for:

1. repaying delinquent state or federal taxes;
2. financing any costs incurred prior to MDFAB approval.
3. financing residential property (excluding nursing homes and assisted living facilities);

4. investment property (borrower must occupy at least 51% of the rentable square footage of the entire property;
5. operating capital, inventory and rolling stock (such as over the road trucks, cars and vans);
6. financing a change of ownership, reimbursing funds owed to an owner, partner, or shareholder;
7. refinancing business debt that's in the business or owner's name;
8. financing a non-business purpose.

## VI. Loan Application Process

MBDD has established a loan application and approval process that may be amended from time to time and is binding upon all applicants.

Upon receipt of a Preliminary Application Form, MBDD staff will interview interested applicants to determine general program eligibility. A link to the application is sent to eligible applicants. The application will request information related to the loan request and supporting documentation on the company, its ownership structure, principals, and guarantors.

Loan Approval and Denial

1. MBDD and Development, in its sole discretion, may approve or deny loan applications.
2. All MBD Loan applications are processed through an internal review and approval process. Upon recommendation from MBDD staff, the loan application is sent to the Minority Development Financing Advisory Board (MDFAB) for approval. Borrower's must attend the MDFAB which meets on the 4th Tuesday of the month (November is combined with December on the 1st Tuesday in December.) Applicants will receive notice of the date, time and location of the meeting.
3. Upon approval from Minority Development Financing Advisory Board (MDFAB), the application is sent to the Controlling Board for approval.
4. Approval shall be communicated in a written commitment to the Borrower.
5. If the loan application is denied, MBDD will notify the applicant in writing stating the reason for denial.

A. Withdrawal or Declination of Application

1. Any applicant may withdraw a loan application at any time prior to closing by giving written notice to MBDD.
2. MBDD will maintain a log of each application. If the applicant fails to submit any additional requested information or documentation that is needed to complete the underwriting process within sixty (60) days of the application date, with no justifiable explanation, the application will be deemed ineligible, and written notice sent to the applicant.
3. After 90 days of the application declination, the applicant may contact the MBDD to request a new application if the original application defects are cured.

4. MBDD may withdraw an application if inaccurate or fraudulent information is submitted.

B. Loan Closing

1. Development will have all loan closing documentation completed by outside counsel.
2. The loan closing will be scheduled at a time acceptable to both the Borrower and outside counsel.
3. Real estate purchases requests are fully funded after loan closing. **Renovations, leasehold improvements, and equipment purchases are funded using a multiple reimbursement process**.
4. Loan proceeds will be disbursed electronically. To receive loan proceeds the Borrower is required to use an existing OH|ID or register for one at OhioPays.gov and make sure the OhioPays.gov has a valid bank account for EFTs linked to the OhioPays.gov.
5. The Borrower will be required to provide the business' checking account information and to complete an ACH Authorization Agreement for loan repayment purposes.
6. As part of MBDD's annual review of the Borrower's loan, tax returns, income statements, balance sheets, bank statements and updated personal financial statements will be requested.
7. The Borrower must agree to all the terms and conditions set forth the loan documents provided.

C. Assumption and Defaults

1. Loans cannot be assumed by other businesses or individuals.
2. Loans that become delinquent may be sent to the Ohio Attorney General for collection.
3. Borrowers may not apply for other MBDD loan products within 12 months of a missed payment on their existing loan.

## VII. MBD-Loan Evaluation Criteria

A. Business Evaluation

The historical and projected performance of the applicant and its owners will be evaluated to assess the ability to repay the proposed loan. Specifically, this evaluation will include but is not limited to the following.

1. Financial Performance of the Business: This involves the evaluation of the historical financial performance of the applicant company, including an examination of tax returns, income statements, balance sheets, cash-flow statements, accounts receivable and accounts payable aging reports, projected financial performance, demonstration of general liability/hazard insurance and required industry licenses or certifications.

2. Business Viability: This involves the evaluation of the applicant's business model, market area, client / customer base, and competition. An executive summary and/or business plan

may be required.

3. Financial Performance of the Owners: This involves the evaluation of personal tax returns and personal financial statements.

4. Management Experience: This involves the evaluation of the owner's general business experience, specific skillset, and resume.

5. Public Records Review: This involves the evaluation of public information on the business and its owners, which may include Dun & Bradstreet, Lexis Nexis, tax clearance, and other public sources.

B. Project Evaluation

1. The intended use of funds and project costs are evaluated along with the applicant's ability to repay the loan. Businesses must demonstrate sufficient cash flow to cover the proposed principal and interest payments.

   a. Project Costs: The costs associated with a project, funding sources, and other lending partners will be evaluated. Third party cost estimates are required to support project costs.

   b. Cash-Flow Analysis: A cash-flow analysis will be performed using both historical tax returns, interim financial statements and projected (if necessary) financial statements. Historical and projected cash-flow must demonstrate debt service capacity of 1.2:1 for at least 2 out of the 3 historical years being reviewed.

   c. Working Capital Analysis: The applicant's liquidity and access to working capital to cover daily operations will be evaluated.

## VIII. Notification and Servicing

1. MBDD reserves the right to announce all commitments publicly.
2. Loans will be serviced by Development's Loan Servicing Administration. Loan Servicing will electronically collect payments, request annual financial reporting and collect annual job reporting.