

## MICHIGAN COLLATERAL SUPPORT PROGRAM

The current economic downturn has resulted in suppliers' property, plant, and equipment being devalued by as much as 80%. This leaves suppliers little or no collateral value to borrow against in order to fund diversification projects.

The Michigan Collateral Support Program (MCSP) will supply cash collateral accounts to lending institutions to enhance the collateral coverage of borrowers. These accounts will cover all or a portion of a calculated collateral shortfall as described by the lending institution. Borrowers with a collateral shortfall will apply for coverage through the Michigan Economic Development Corporation<sup>SM</sup> (MEDC), on behalf of the Michigan Strategic Fund (MSF). If approved, the MSF will deposit the cash into an interest bearing account with that lender and this account will then be pledged as collateral on behalf of the borrower. Based on an amortization schedule, the MSF will draw down the account as the loan principal is paid. In the event of full default, the lender will have rights to the account less a liquidation fee.

### ELIGIBLE BORROWERS

- To be eligible for the program a company must fall under the definition of a firm which may be eligible to receive a MEGA tax credit (see *Lender Facts and Information*).
- To qualify, a business must be engaged with a private lender for the purpose of acquiring a commercial loan for a diversification project and must exhibit a collateral shortfall according to the lender's analysis.

### APPLICATION

- The MEDC is now accepting applications for the Michigan Collateral Support Program (MCSP).
- Interested borrowers and/or lenders can contact the MEDC through the program's e-mail address at [MSDF@michigan.org](mailto:MSDF@michigan.org). See *Lender Facts and Information* for more details on how to apply.

### LENDER FACTS AND INFORMATION

The Michigan Collateral Support Program (MCSP) is the second tool launched under the Michigan Supplier Diversification Fund. The program is designed to assist lenders and borrowers in financing diversification projects. Specifically the program seeks to enable suppliers to acquire the necessary financing that might otherwise be unavailable due to a **collateral shortfall** according to the lender's analysis. The program will supply pledged cash collateral accounts to lenders to achieve this goal. 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 work with us on a project.

### PROGRAM 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 MCL 207.803(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 provide collateral support for up to **49.9%** of a loan.
- The **maximum collateral deposit is \$500,000** except in the case where it is determined that the project provides unique and high level economic development or job creation benefits to the state of Michigan.
- The program shall **enhance the collateral position of borrowers by depositing cash into accounts at participating lending institutions** which will then be pledged as collateral on behalf of the borrower on a transaction by transaction basis.
- The **program balance shall be reduced proportionately with the principal reduction** of the loan so as to eliminate over-reliance on program deposits as part of the collateral commitment on the loan.

- Losses resulting in a distribution to the bank of program funds will be paid at a rate less than 100% of the pledged security as negotiated in the Deposit Agreement.
- 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 charges a **fee at closing**.
- Participating lending institutions shall be required to make periodic reports to the MSF.
- The lender must sign the **MSF Cash Collateral Deposit Agreement**.
- The MCSP can be used in conjunction with **SBA** loan structures and 504 structures.

### APPLICATION PROCESS

Potential borrowers must complete a loan application with your institution. If they do not meet the cash flow coverage requirements of your institution to acquire the targeted loan amount from you alone, they may be eligible to participate in the MLPP program. Please submit the following in order to be considered for participation:

1. The **one-page MCSP Application Form** (*click to open*)
2. Your institution'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.*
3. A **brief memo** describing the appetite for the loan, a statement of support for the project should participation terms be reached, and your institution's potential exit strategy.

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

Capital Markets Development  
Michigan Economic Development Corporation<sup>SM</sup>  
Attn: Mike Flanagan  
300 North Washington Square  
Lansing, MI 48913  
MSDF@michigan.org

### WHAT TO EXPECT NEXT

The MEDC will be in contact with your institution to confirm receipt of application materials and answer any questions. We will process applications on a timely basis. The MEDC will contact your institution as soon as a loan decision has been reached. If approved, your institution will be required to sign an MSF Cash Collateral Deposit Agreement, outlining the terms of the deal. Once received, the MEDC will process the deposit of our collateral support.

We look forward to working with you!