

MICHIGAN LOAN PARTICIPATION PROGRAM

Typically, lenders underwrite using historical cash flows from a firm's traditional business to calculate debt service coverage ratios, while "factoring down" projected cash flows of potential new projects as "too speculative." This practice impedes the ability of businesses to diversify, especially during a slow economy. The Michigan Loan Participation Program (MLPP) was designed to address this obstacle.

The MLPP will participate with lenders to finance diversification projects when faced with borrowers whose projected cash flows are considered speculative by the lender. The MLPP 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. MLPP 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 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 cash flow shortage according to the lender's analysis.

APPLICATION

- The Michigan Economic Development Corporation (MEDC) is now accepting applications for the Michigan Loan Participation Program (MLPP).
- Interested borrowers and/or lenders can contact the MEDC through the program's e-mail address at MSDF@michigan.org. See *Lender Facts and Information* for more details on how to apply.

LENDER FACTS AND INFORMATION

The Michigan Loan Participation Program (MLPP) is the first 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 cash flow shortage according to the lender's analysis. The program will participate on loans with lenders to pursue 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 participate 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 purchase up to **49.9%** of a loan.
- The **maximum participation 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 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).
- After the designated grace period, the **effective rate of interest** on MEDC's portion of the loan shall be no less than 1% and no more than 4% above the interest rate of the lead bank.
- 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 an **equal participant** with respect to collateral.
- The program charges a **fee at closing**.
- 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 bank 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 **MSF Loan Participation and Servicing Agreement** and must have the borrower sign the Supplemental Agreement.
- The MLPP 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 MLPP 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 CorporationSM
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 Loan Participation and Servicing Agreement, outlining the terms of the participation, and you will be required to sign an Michigan Strategic Fund Supplemental Agreement. Once received, the MEDC will process payment for our portion of the loan.

We look forward to working with you!