



## Incentives

### SBA 504 Loan Program

Category: State and Federal Financing

### Minnesota Business Finance Corporation

The Minnesota Business Finance Corporation (MBFC) is a nonprofit corporation set up to contribute to the economic development of the central Minnesota region. As a 504 Certified Development Company (CDC), the MBFC works with the Small Business Administration and private sector lenders to provide financing to small businesses.

#### About SBA 504

Through the SBA 504 Loan Program, the MBFC provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings.

Typically, a private lender will provide 50% of the project financing while 40% is funded by a debenture guaranteed by the Small Business Administration. The remaining 10% is equity provided by the borrower. The extent of the SBA's participation is usually \$1,000,000 although \$1.3 million may be available under certain circumstances.

#### Eligibility

- To be eligible, the business must be operated for profit, have a tangible net worth of less than \$7 million, and have an average net income that is less than \$2.5 million after taxes for the preceding two years.

#### Requirements

- Loans must be used for fixed asset projects such as: purchasing land and improvements, including existing buildings, grading, street improvements, utilities, parking lots and landscaping; construction of new facilities, or modernizing, renovating or converting existing facilities; or purchasing long-term machinery and equipment.
- Funds cannot be used for working capital or inventory, consolidating or repaying debt, or refinancing.
- 1 job must be created for every \$35,000 received.

#### Rates/Terms

- Interest rates are pegged to an increment above the current market rate for 5-year and 10-year U.S. Treasury issues.
- Terms of 10 or 20 years are available.
- Fees typically total 3% of the debenture.

#### Contacts

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## About SBA 7(a)

The 7(a) Loan Guaranty Program is one of SBA's primary lending programs. It provides loans to small businesses that are unable to secure financing on reasonable terms through normal lending channels. The program operates through private-sector lenders, which provide loans that are, in turn, guaranteed by the Small Business Administration. The SBA has no funds for direct lending or grants.

## Eligibility

- Most types of businesses are eligible as long as they are for-profit and operate in the United States.
- The firm must meet the SBA's definition of a "small business," which varies depending upon the type of business it is. The vast majority of businesses meet this definition.

## Requirements

- Funds can be used for real estate, machinery & equipment, inventory and working capital.

## Rates/Terms

- \$2 million is the maximum loan available under the 7(a) program, although \$1 million is the maximum exposure of the SBA under a guarantee.
- For loans of \$150,000 or less, the SBA guarantees 85% of the loan
- For loans greater than \$150,000, the SBA guarantee is 75%
- Interest rates may be fixed or variable and are negotiated between the lender and borrower subject to SBA guidelines, loan size and the term of the loan:

Loan Size	Term	Maximum Interest Rate
\$50,000 or more	more than 7 years	Prime + 2.75%
	less than or equal to 7 years	Prime + 2.25%
\$25,000 to \$50,000	more than 7 years	Prime + 3.75%
	less than or equal to 7 years	Prime + 3.25%
\$25,000 or less	more than 7 years	Prime + 4.75%
	less than or equal to 7 years	Prime + 4.25%

- Maximum terms are 25 years for real estate & equipment (limited to the economic life of the asset) and 7 years for working capital (although under certain circumstance this can be stretched to 10 years).
- Guarantee fees apply based upon the size of the loan:

Loan Size	Guaranty Amt.
\$150,000 or less	1.00%
\$150,000 to \$700,000	2.50%
More than \$170,000	3.50%

- All loans are subject to a 25 basis point annualized servicing fee on the outstanding balance of the guaranteed portion of the loan.
- Finally, there are penalties for pre-payment.

**Most lenders are familiar with SBA loan programs so interested applicants should contact their local lender for further information and assistance in the SBA loan application process.**

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## About SBA Express Loans

The SBA Express loan program is a simplified loan guarantee program that is essentially the same as its 7(a) loan program. The Express program is typically much faster and easier than the 7(a), however loan amounts cannot exceed \$350,000. The SBA guarantees 50% of the loan and credit decisions are typically made within 36 hours.

## Eligibility

- Most types of businesses are eligible as long as they are for-profit and operate in the United States.
- The firm must meet the SBA's definition of a "small business," which varies depending upon the type of business it is. The vast majority of businesses have no trouble meeting this definition.

## Requirements

- Funds can be used for real estate, facility expansion or conversion, machinery & equipment, inventory & supplies, working capital, to purchase an existing business and to refinance existing business debt that is not already structured with reasonable terms & conditions.
- Loan proceeds cannot be used to effect a partial change of business ownership, to reimburse funds owned to an owner, to pay delinquent taxes or for any unsound business purpose.

## Rates/Terms

- Maximum loan amount is \$350,000
- Interest rates are negotiated between the borrower and lender, may be fixed or variable, depend upon the size of the loan and are tied to the prime rate.

### Loan Size

Over \$50,000  
\$50,000 or less

### Maximum Interest Rate

Prime + 4.5%  
Prime + 6.5%

- There is a 2% guaranty fee for loans up to \$150,000 and a 3% guaranty fee for loans over that amount.
- Maximum terms are 25 years for real estate & equipment (limited to the economic life of the asset) and 7 years for working capital (although under certain circumstances this can be stretched to 10 years).
- Collateral may not be required for loans up to \$25,000 – the bank making the actual loan makes this determination.

**SBA Express loans are arranged through your local lender.**

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# USDA Intermediary Re-lending Program (IRP)

Category: State and Federal Financing

## PrairieLand Economic Development Corporation

The Southwest Initiative Foundation (SWIF) is a regional organization funded by the McKnight Foundation for the purpose of promoting community and economic development over the 18 county area of southwestern Minnesota.

### About IRP

The IRP (Intermediary Re-lending Program) is a loan to PrairieLand EDC from USDA Rural Development. PrairieLand EDC, in turn, loans the funds to eligible small businesses for financing fixed assets or working capital. The goals of the IRP include these objectives: create and retain jobs for the citizens of the area, provide rural business with a source of capital not readily available in the rural area, and generate tax revenue for the cities and counties of the region.

- Community Impact – Jobs / Tax Base / Capital

### Eligibility

- Business start-ups and expansions are eligible
- Eligible business types include value-added manufacturing, agri-processing, technologically innovative industries, tourism, information industries and agricultural marketing.
- Loan funds are not available for companies relocating within Minnesota.

### Requirements

- IRP loans cannot exceed 50% of the total project cost.
- A resolution of support from the company's local unit of government is required.
- Funds may be used for real estate, machinery & equipment and / or working capital.
- At least 1 job must be created for each \$15,000 lent.
- Jobs should principally benefit low-income people.

### Rates/Terms

- Loan from \$5,000 to \$250,000 is available.
- Fixed Interest Rate of 6% today
- Terms up to 15-years are available, depending upon the collateral.
- At least a shared 1st position on collateral is preferred- rarely subordinate.

### Contacts

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