

ONEGEORGIA AUTHORITY

Regulations • Entrepreneur and Small Business
Development Loan Guarantee Program

OneGeorgia Authority
Introduction • Entrepreneur and Small Business Development Loan
Guarantee Program

Introduction

This packet contains the information and forms needed in order for an eligible lender to complete and submit an Entrepreneur and Small Business Development (ESBD) Loan Guarantee Program application. The ESBD Loan Guarantee Program process is designed to be flexible and responsive. Any lender licensed in the State of Georgia to lend funds to commercial for-profit enterprises may participate in the ESBD Loan Guarantee Program.

Rather than the traditional “retail” government program that must undertake each deal separately, ESBD creates a “wholesale” program that relies on partnerships with existing commercial lenders in target markets. Approved lenders may use existing underwriting criteria to score and evaluate the credit-worthiness of a small business loan application. Should a lender determine that a project has potential, but cannot proceed because of credit weaknesses with the underlying company; the lender may apply to the ESBD Loan Guarantee Program for a limited loan guarantee. The short application process is described herein.

The ESBD Loan Guarantee Program is a very specialized community and economic development tool with limited resources meant to assist small businesses in rural counties in Georgia. This manual clearly defines the role of ESBD as a program to facilitate access to capital through guarantee assistance authorized by O.C.G.A.50-34-1 et seq. Due to the specialized nature of the program and the limited resources available, we encourage interested parties to contact the OneGeorgia Authority before submitting an application at:

The OneGeorgia Authority
OneGeorgia ESBD Loan Guarantee Program
1202-B Hillcrest Parkway
Dublin, Georgia 31021
(478) 274-7734
www.onegeorgia.org

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ESBD Loan Guarantee Program Regulations

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413-6-1.01 Scope of Rule

This regulation governs the operation of the Entrepreneur and Small Business Development (ESBD) Loan Guarantee Program as established by the OneGeorgia Authority (O.C.G.A.50-34-15 *et seq.*) through a resolution adopted by the OneGeorgia Authority Board on June 15, 2005. In said resolution, the OneGeorgia Authority Board authorized the OneGeorgia Authority to market and promote the ESBD Loan Guarantee Program and further authorized the Department of Community Affairs (hereinafter referred to as “Agent”) as the implementing entity for administrative and policy purposes. (O.C.G.A.50-34-15 *et seq.*)

413-6-1-.02 Outcomes

The ESBD Loan Guarantee Program will provide partial guarantees to banks for loans to small businesses that cannot otherwise obtain all of their financing needs. The ESBD Loan Guarantee Program objective will be to fund viable ESBD loans that leverages private investment while creating new or expanding existing businesses that will create employment opportunities for rural Georgia.

413-6-1-.03 Definitions and Eligibility

- 1) The definitions for purposes of this regulation are identical in all respects to the terms defined in (O.C.G.A.50-34-2.);
- 2) “Rural County”, which is not defined in (O.C.G.A. 50-34-2), shall be defined using the most recent data and estimates from the U.S. Bureau of the Census to mean a county with a population less than 50,000 where 10% or more of the population lives in poverty.
- 3) “Lender” (Lender, Recipient and eligible Applicant are used interchangeably throughout these regulations) means a state or federally chartered bank or lending institution in good standing with the Federal Deposit Insurance Corporation, the National Credit Union Share Insurance Fund as well as the Georgia Department of Banking and Finance. The lender must have an established and demonstrated successful lending track record as documented by financial records and/or statements. Any organization meeting the above referenced definition is eligible to participate in

the ESD Loan Guarantee Program. The lending institution must have a physical location in Georgia.

- 4) "Sub-Recipient." Eligible sub-recipients under this program shall include for profit business enterprises that are properly organized which are located in an eligible rural county of the State of Georgia with financing needs for eligible activities of \$35,000 to \$250,000. Businesses engaged in whole or part in the activities listed under section 413-6-1-.08 of these regulations or those that have outstanding state or federal tax liens outstanding at the time of application are not eligible for participation in the program.

413-6-1-.04 Purpose

The purpose of the OneGeorgia Authority ESD Loan Guarantee Program is to provide financial assistance through loan guarantees to lenders as authorized by O.C.G.A. 50-34-1 et seq.) to back loans that assist in small business development in the rural counties of the State. Loan guarantees are available to assist small businesses that would be unable to obtain suitable or adequate financing on their own.

413-6-1-.05 Availability of Loan Guarantees

- 1) Funds made available to the OneGeorgia Authority and authorized by the OneGeorgia Authority Board to back loan guarantees will be made available to lenders through the selection process outlined in this regulation. In addition, marketing material, regulations and application materials and formats will be made available through the Authority and/or Agent's web site(s). Materials will be published on the Authority's site at www.onegeorgia.org and/or Agent's site at www.dca.state.ga.us at the discretion of the Authority and/or Agent. Materials may also be mailed to eligible lenders, lender associations and/or placed in advertisements in certain local or state publications.
- 2) The OneGeorgia Authority's website will contain submission guidelines. Applications will be accepted at any time an eligible lender has an eligible project and will be reviewed based upon the criteria provided in Section 413-6-1-.09 of these Rules.
- 3) Lenders must apply for assistance under this program in a format and manner prescribed by the Authority. For Lenders who do not wish to download application manuals and guidelines from the web site(s), materials may be obtained from the Authority or Agent by sending a written request to:

The OneGeorgia Authority
OneGeorgia ESD Loan Guarantee Program
1202-B Hillcrest Parkway
Dublin, Georgia 31021

or

The Georgia Department of Community Affairs
ESD Loan Guarantee Program
c/o Office of Economic Development
60 Executive Park South, N.E.
Atlanta, Georgia 30329-2231

The application manual provided will include information outlining program requirements, forms, mailing addresses, telephone numbers of contact persons and other necessary and pertinent information.

413-6-1-.06 Forms, Means of Assistance, Fees and Methodology

- 1) Loan Guarantees to Lenders: OneGeorgia will guarantee up to 50% of the original principal amount of the lender's loan, or up to \$112,500, whichever is less, with the sub-recipient business providing no less than 10% cash equity in the project. OneGeorgia's loan guarantee will not cover outstanding or capitalized interest charges. Lenders will provide a 1% loan guarantee fee of the guarantee amount to the OneGeorgia Authority at the loan closing. In addition, OneGeorgia will require an on-going annual fee of 0.5% of the outstanding loan balance guaranteed by OneGeorgia. This fee will be collected on an annual basis by the OneGeorgia Authority upon a schedule that shall be described within an approved project's award documents.
- 2) Sample Project: Total project cost \$250,000
 Private cash equity \$ 25,000 (or 10% of \$250,000)
 Bank loan (5 yr term at 6%) \$225,000 (financing need)

The ESD Loan Guarantee Program will guarantee up to 50% of the \$225,000, or \$112,500 loan amount (\$225,000 multiplied by 50%).

A 1% loan guarantee fee will be paid to the OneGeorgia Authority by the Lender, or \$1,125 (\$112,500 multiplied by 1%).

On an annual basis, the Lender will remit to the OneGeorgia Authority a 0.5% fee on the outstanding loan guarantee balance. In this example, assuming a straight-line amortization schedule, at the end of year one, that fee will be \$463. (\$225,000 plus 6% interest, or \$12,418 minus an annual debt service payment of \$52,199 is equal to a remaining loan balance of \$185,219. OneGeorgia will guarantee \$92,609, or 50% of the remaining loan balance. The fee is calculated by multiplying remaining guaranteed amount of \$92,609 by 0.5%). This is further demonstrated in the table below.

Year	Principal Balance	Qualified Guarantee Amount	OneGeorgia Fees
0	\$225,000	\$112,500	\$1,125
1	\$185,219	\$92,609	\$ 463
2	\$142,984	\$71,492	\$ 357
3	\$ 98,146	\$49,073	\$ 245
4	\$ 50,541	\$25,270	\$ 126
5	\$ 0		
Total OneGeorgia Fees			\$2,316

413-6-1-.07 Eligible Activities

- 1) An eligible lender shall use the ESBD Loan Guarantee Program to partially guarantee a new loan made to an eligible sub-recipient business who then must use the lender's funds for sound business purposes which may include, but not be limited to the following:
 - A. acquisition of land (by purchase or lease);
 - B. improvement of a site (e.g., grading, streets, parking lots, landscaping);
 - C. acquisition of one or more existing buildings;
 - D. conversion, expansion or renovation of one or more existing buildings;
 - E. construction of one or more new buildings; acquisition (by purchase or lease),
 - F. installation of fixed assets and working capital.
- 2) A working capital loan must be adequately secured by accounts receivable or inventory of the sub-recipient business properly margined according to the lender's normal collateral guidelines. Working capital can also be secured by tangible assets owned by the principals of the business.
- 3) An ESBD guaranteed loan cannot exceed 90% of the value of the underlying collateral. Proper collateral documents must be executed and recorded as necessary including security agreements, deeds to secure debt, and UCC financing statements.
- 4) Tangible assets financed with an ESBD guaranteed loan must be supported with proper cost documentation including equipment invoices or a real estate settlement statement.

413-6-1-.08 Ineligible Activities and Businesses

Refinancing of existing debt is not an eligible activity of the ESBD Loan Guarantee Program. Unless waived by the OneGeorgia Authority for good cause, the following types of sub-recipient businesses are ineligible for ESBD loan guarantees: Non-profit businesses (for-profit subsidiaries are eligible); Financial businesses primarily engaged in the business of lending, such as banks, finance companies, and factors (e.g., pawn shops); Passive businesses owned by developers and landlords that do not actively use or occupy the assets acquired or improved with the loan proceeds; Life insurance companies; Businesses whose financed activity will be located outside the State of Georgia; Pyramid sale distribution plans; Businesses deriving revenue from legal gambling activities or games of chance (excluding the Georgia Lottery); Businesses engaged in any illegal activity; Private clubs and businesses which limit the number of memberships for reasons other than capacity; Businesses principally engaged in teaching, instructing, counseling or indoctrinating religion or religious beliefs, whether in a religious or secular setting; Consumer and marketing cooperatives (producer cooperatives are eligible); Loan packagers; Businesses with a Principal who is incarcerated, on probation, on parole, or has been indicted for a felony or a crime of moral turpitude; Businesses in which the Lender, or any of Lender's Associates owns an equity interest; Businesses which: Present live performances of a prurient sexual nature; or derive directly or indirectly more than de minimis gross revenue through the sale of products or services, or the presentation of any depictions or displays, of a prurient sexual nature; businesses that have previously defaulted on a State or Federal loan or State or Federally assisted financing, resulting in the State or Federal government or any of its agencies or Departments sustaining a loss in any of its programs, and businesses owned or controlled by an applicant or any of its

Associates which previously owned, operated, or controlled a business which defaulted on a State or Federal loan (or guaranteed a loan which was defaulted) and caused the State or Federal government or any of its agencies or Departments to sustain a loss in any of its programs; Businesses primarily engaged in political or lobbying activities; and businesses that receive more than 25% of their gross revenue from the sale of alcoholic beverages.

413-6-1-.09 Review of Applications

- 1) All applications received from lenders will be reviewed in accordance with applicable requirements of this regulation, OneGeorgia guidelines and applicable law.
- 2) Threshold Requirements (Application must generally meet all requirements in order to be rated.):
 - A) The application is from an eligible lender who has certified to its good standing and the fact that lender is in compliance with all applicable state, federal and local laws, regulations and its corporate charter;
 - B) The application supports an eligible sub-recipient;
 - C) The project takes place in a “rural” county as defined under section 413-6-1-.03;
 - D) The proposed terms of assistance meet applicable requirements as described in 413-6-1-.06 and 413-6-1-.10;
 - E) The proposed use of funds are for eligible activities and will be carried out in a manner consistent with the state constitution, state law and in accordance with the applicants’ (or sub-recipients’) policies and procedures;
 - F) The application contains a letter of certification from the Lender stating that but for the ESBD Loan Guarantee Program, the proposed loan would not otherwise be considered for funding;
 - G) (Reserved.)
- 3) The OneGeorgia Authority relies on the Lender’s credit analysis of the sub-recipient business and project; however, the Lender must certify that proper due diligence has been met and upon request, provide appropriate documentation to the OneGeorgia Authority demonstrating that the ESBD guaranteed loan meets the following minimum financial viability thresholds:
 - A) A minimum cash equity injection of 10% is required for the ESBD project.
 - B) Guaranteed loans must be secured under the Lender’s existing collateral policy.
 - C) Working capital loans guaranteed by the ESBD Program must be adequately secured. Collateral can include business assets or personal assets outside of the business.
 - D) Cash flow projections must indicate the company’s ability to service the ESBD guaranteed loan and other company debts.
 - E) Owners of the company with a greater than 20% ownership must provide personal guarantees on the ESBD guaranteed loan.
 - F) The company must be solvent as indicated on its most recent balance sheet.
 - G) Entrepreneurs starting new businesses must provide an adequate business plan (such assistance is provided by Small Business Development Centers) documenting the strengths of the management team and a sound marketing plan. The business plan must support the financial projections presented that indicate loans can be repaid.

- 4) The criteria in this rule (413-6-1-.09) are designed to assist the OneGeorgia Authority or its Agent in making a decision and only constitute minimum standards. Additional factors may be considered depending on the nature of a particular project and its relative merit compared to competing proposals and the availability of funding at the time of application. The decision made by the OneGeorgia Authority shall be final and conclusive.

413-6-1-.10 Awarding of Guarantees and Subsequent Funds

ESBD loan guarantees to the Lender will be made in the form of an agreement and shall generally carry the following terms:

- 1) ESBD limits loan guarantees from \$15,750 to \$112,500 based on a total project cost of \$35,000 to \$250,000. These limits can be waived upon recommendation of the Executive Director of the One Georgia Authority.
- 2) The exact terms of the loan will be negotiated between the Lender and the sub-recipient business; however, the interest rate shall not exceed prime +2%.
- 3) Once approved, the guarantee agreement made available by the OneGeorgia Authority or its Agent constitutes a legal agreement incorporating by reference the approved final application and adding any conditions that may be necessary or appropriate.
- 4) As part of the guarantee conditions, lenders must file a final report on the impact and performance of the project, in a format prescribed by the OneGeorgia Authority or its Agent.
- 5) The OneGeorgia Authority or its Agent may approve a guarantee subject to certain conditions that will be incorporated into the guarantee agreement. Because of the limited amount of funds available, the OneGeorgia Authority or its Agent may also guarantee an amount less than the amount requested in the application. Lenders will have thirty (30) days from the date of the guarantee agreement to accept any conditions and/or the reduced guarantee amount. If the applicant fails to accept the conditions or lower guarantee amount within the required period, the OneGeorgia Authority and/or the Agent with OneGeorgia Authority approval may unilaterally withdraw the guarantee.
- 6) The OneGeorgia Authority or its Agent will provide lenders with specific instructions and forms to be used under the guarantee agreement.
- 7) The term of the guarantee shall not exceed five years from date of issuance.
- 8) The Lender's right to exercise the guarantee shall be enumerated in the ESBD Loan Guarantee Agreement; however, the following minimum stipulations must exist or be satisfied before a Lender may exercise the guarantee:
 - A) The Sub-Recipient must have defaulted on the Lender's loan pursuant to applicable requirements, covenants and terms contained within properly recorded loan and security documents;
 - B) The Lender must have exhausted all collateral foreclosure and recapture actions available to it pursuant to properly recorded loan and security documents; and
 - C) The maximum amount of the Lender's reimbursement under the Guarantee will be 50% of the original principal amount of the loan not collected through the sub-recipient's regular amortization of the approved loan or amounts collected under items A and B above.