



## **MEMORANDUM**

**TO:** Members of the Authority

**FROM:** Tim Sullivan  
Chief Executive Officer

**DATE:** September 14, 2022

**SUBJECT:** Main Street Recovery Finance Program - Micro Business Loan – Product Revision

### **Summary**

The Members are asked to approve a revision to the Main Street Recovery Finance Program - Micro Business Loan to remove the requirement for personal guarantees from all owners.

Staff would also like to clarify that the Authority's 3% administration fee to be taken from the Main Street Recovery Fund will be in addition to the loan product budget, so that the total funding available for this loan product will be \$20 million.

### **Background**

At the November 10, 2021 Board meeting, the Members approved the creation of the Main Street Micro Business Loan, a pilot product funded through the Main Street Recovery Finance Program to provide support to New Jersey micro businesses. The Main Street Micro Business Loan offers financing of up to \$50,000 to for-profit and non-profit businesses, including home-based businesses, registered to do business in New Jersey (except for non-profit businesses that are not required to register), with a business location (including a home office) in New Jersey. Then, at the March 9, 2022 Board meeting, the Members approved a product revision to extend eligibility to a business operating for 6 months prior to the application date (as evidenced by their date formed).

### **Product Revision**

The Main Street Micro Business Loan product, as approved by the Members in November 2021, and March 2022, includes the requirement to obtain personal guarantees from all applicant owners.

The original intent of this requirement was to ensure that NJEDA could pursue all owners for repayment in case there was a default on this loan product and the micro business was unable to

repay their loan. However, since this product has a substantial forgiveness component, and the borrower is only required to make payments from year 2 to the end of year 5 before they can apply for loan forgiveness, the need for these guarantees is not critical. The Economic Recovery Act, which established the Main Street Recovery Program, called for NJEDA to have the ability to offer forgivable loans, and the appropriated funds designated to this program allow for NJEDA to determine loan forgiveness parameters.

By removing the personal guarantee requirement, this program would mirror the federal program of Payment Protection Program (PPP), which also has a substantial forgivable component and didn't require personal guarantees. This revision would streamline the applicant process, and help to reduce the burden on micro business owners who already have limited access to capital during this stage of operations.

If the personal guarantee requirement from all owners is lifted, NJEDA would still need to enforce precautions in case of a potential default. If an entity defaults on their Main Street Micro Business Loan, then they will still need to attempt to cure their default by entering into and complying with a repayment plan with NJEDA to get in good standing with NJEDA. By not being in good standing with NJEDA an entity may not be eligible for other products offered by NJEDA.

This is the only product revision requested, and all other product details will remain as approved from the November 10, 2021, and March 9, 2022 Board meeting. However, in addition, Staff did want to clarify that since NJEDA has received additional appropriated funding through the budget the administration fee does not have to be a net from the Micro Business Loan product funding. The administration fee can be in addition to the \$20 million for this product, so there will be a total of \$20 million available to support eligible micro businesses.

### **Recommendation**

Approval is requested for a revision to the Main Street Recovery Finance Program – Micro Business Loan to remove the requirement to obtain personal guarantees from the owners of the micro business. Approval is also requested for Staff's clarification that the Authority's 3% administration fee to be taken from the Main Street Recovery Fund in addition to the product budget, so that the total funding available for the Main Street Micro Business Loan will be \$20 million.



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Tim Sullivan, CEO

### Attachments

Exhibit A – Main Street Micro Business Loan – Product Specifications – updated

<b>Main Street Micro Business Loan - Proposed Product Specifications</b>	
<b>Funding Source</b>	<p>Up to \$20,000,000 - Main Street Recovery Fund under Economic Recovery Act</p> <p>40% or \$8 million of total funding amount will be reserved for businesses located in an eligible NJ Opportunity Zone census tract.</p>
<b>Program Purpose</b>	To provide low-cost financing to micro businesses in New Jersey.
<b>Eligible Applicants</b>	<p>The following entities are eligible for financing under the Main Street Micro Business Loan:</p> <ul style="list-style-type: none"> <li>• For-profit business, non-profit, and home-based businesses with a business location in New Jersey and that have been formed for at least six months prior to the date of application (as evidenced by their date of formation).</li> <li>• No real estate or holding companies are eligible for this product.</li> </ul> <p>All entities must meet the following requirements to be eligible under the Micro Business Loan:</p> <ul style="list-style-type: none"> <li>• Must have annual gross revenues of \$1,500,000 or less according to the most recent federal tax return that the applicant was required to file.</li> <li>• At time of application and three months prior to application entity cannot have more than 10 full-time employees in total. All employees must work in New Jersey as evidenced by WR-30 filings. There is no minimum employee number and sole proprietors are eligible.</li> <li>• One loan per business entity (verified by the business's employer identification number, or EIN)</li> <li>• Applicants and recipients of the original Micro Business Loan are eligible for this loan if they meet all eligibility requirements.</li> </ul>

**Main Street Micro Business Loan - Proposed Product Specifications**

<p><b>Eligible Applicants (continued)</b></p>	<ul style="list-style-type: none"> <li>• A business entity with multiple locations (that is, all locations operate under only one EIN) will be limited to one application under this new product (under the sole business entity).</li> <li>• Entity must provide a current Tax Clearance Certification prior to receiving EDA approval.</li> <li>• Applicant must be in substantial good standing with the Department of Labor and Department of Environmental Protection, with all decisions of substantial good standing at the discretion of the Commissioner of the Department of Labor.</li> <li>• Applicant must submit a completed legal debarment questionnaire and not be subject to disqualification based on that questionnaire.</li> </ul> <p>Businesses that are engaged in the following are not eligible for funding: the conduct or purveyance of "adult" (i.e., pornographic, lewd, prurient, obscene or otherwise similarly disreputable) activities, services, products or materials (including nude or semi-nude performances or the sale of sexual aids or devices); any auction or bankruptcy or fire or "lost-our-lease" or "going-out-of-business" or similar sale; sales by transient merchants, Christmas tree sales or other outdoor storage; or any activity constituting a nuisance.</p>
<p><b>Eligible Uses</b></p>	<ul style="list-style-type: none"> <li>• Future operating expenses, which may be held as working capital to fund such future operating expenses</li> <li>• Future inventory expenses</li> <li>• Future purchases of equipment as long as installation and construction costs do not exceed \$1,999.99</li> <li>• Home-based businesses cannot use loan, proceeds for any residential costs (i.e., home mortgage/lease payments)</li> </ul> <p>The following uses are <b>not</b> eligible uses:</p> <ul style="list-style-type: none"> <li>• Refinancing of existing debt</li> </ul>

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<p><b>Eligible Uses (continued)</b></p>	<ul style="list-style-type: none"> <li>• Personal, non-business obligations or costs incurred by related entities</li> <li>• Construction</li> <li>• Equipment requiring installation or construction costs in excess of \$1,999</li> <li>• Rolling stock - no cars, trucks, or vans can be purchased</li> </ul>
<p><b>Application Process and Board Approval/ Delegated Authority</b></p>	<ul style="list-style-type: none"> <li>• Applications will be reviewed on a rolling basis (first-come, first-served as applications are completed) until all funds are committed or program expires (3 years).</li> <li>• Delegation to Authority staff (Chief Community Development Officer, Managing Director - Underwriting and Community Development, Director of Small Business Services, Senior Vice President of Finance and Development, or Vice President of Business Operations) to approve individual applications to the Main Street Micro Business Loan in accordance with the terms set forth in the attached program specifications.</li> <li>• The delegated authority requested for approval also includes the delegated authority to decline for any decisions based solely on non-discretionary reasons. For final administrative decisions based solely on non-discretionary reasons, delegated authority is requested for approval by a Chief Legal &amp; Strategic Affairs Officer, any Vice President, or the Director Legal Affairs.</li> <li>• Entities whose applications are denied will have the right to appeal. Appeals must be filed within the timeframe set in the declination letter (which must be at least 10 business days). The Director of Legal Affairs will designate Hearing Officers who will review the applications, the appeals, and any other relevant documents or information. The Hearing Officer will recommend a final administrative decision. For final appeal decisions on non-discretionary reasons, delegated authority is issued to the following staff: Chief Legal &amp; Strategic Affairs Officer, any Vice President, and Director of Legal Affairs.</li> </ul>

**Main Street Micro Business Loan - Proposed Product Specifications**

<p><b>Underwriting/ Approval Criteria</b></p>	<ul style="list-style-type: none"> <li>• For for-profit businesses, the financial information that is provided will only be utilized to verify annual revenue to determine an applicant's eligibility criteria and ownership - it will not be used to determine the applicant's ability to repay this loan.</li> <li>• If otherwise eligible, staff will have a specialty hard credit report pulled specific for small businesses from CoreLogic Credco. At least one of the guarantors (owners) must have a credit score of 600 and above in at least one of the three data sources provided in the credit report: Equifax (Beacon 5.0), Experian (FICO II), and TransUnion (FICO Classic 04).</li> <li>• Non-profits will be required to meet a minimum Debt Service Coverage Ratio (DSCR) of 1.00x based on most recent tax return or financial statements.</li> </ul>
<p><b>Loan Amounts</b></p>	<p>Up to \$50,000</p>
<p><b>Rates &amp; Terms</b></p>	<ul style="list-style-type: none"> <li>• Standard 10-year term</li> <li>• The interest rate will be 2 percent for this program, set at approval.</li> <li>• No payments or interest will accrue during the first year after closing. Payments of principal and interest will begin at the beginning of year 2.</li> <li>• No payment term amendments are allowed prior to end of 5th year - all other modifications unrelated to the payment terms may be permitted throughout the term of the loan. If after the 5th year any payment terms are modified, the business will no longer be eligible for forgiveness.</li> <li>• At the end of year 5 the applicant may be eligible for the balance to be forgiven if the applicant (1) has made their loan payments as identified in their loan agreement with no</li> </ul>

**Main Street Micro Business Loan - Proposed Product Specifications**

<p><b>Rates &amp; Terms (continued)</b></p>	<p>delinquency of more than 90 days, (2) has no current default, and (3) is still open and operating. The applicant will be required to submit a certification form to EDA certifying that they are open and operating, that they have used the loan for approved purposes only, and that they are not in default. This form will be included in the loan agreement and must be returned by the applicant 60 days prior to the end of the 5th year so a decision can be made by EDA. If the applicant does not submit the form by that date, they may still qualify for loan forgiveness, however loan payments will continue to be required until their certification form is supplied to and verified by EDA, which will reduce the balance EDA will forgive. Staff will verify the business is open and operating, which may be through an Internet search. If verified, EDA will forgive the remaining balance at the end of year 5 or later if the certification form is not received by the due date as described above. If an applicant is not eligible for forgiveness or does not request forgiveness and submit the required documentation, they are required to continue making their payments as defined in their loan agreement.</p>
<p><b>Lien/Collateral/Security</b></p>	<ul style="list-style-type: none"> <li>• No collateral or guarantees are required</li> <li>• Risk Rating: expected to be substandard. If the risk rating is found to support an override to a lower risk rating, then staff will do so to reflect the appropriate rating.</li> <li>• Applicants that default on their loan may not be eligible to qualify for other NJEDA products until their default is cured by establishing a payment plan with NJEDA.</li> </ul>
<p><b>Fees</b></p>	<p>Staff is requesting a partial waiver of EDA's standard application and closing fees because of the drastic negative impact of the pandemic on most micro businesses:</p> <ul style="list-style-type: none"> <li>• Application fee of \$100 (non-refundable) at time of application</li> </ul>

**Main Street Micro Business Loan - Proposed Product Specifications**

<b>Fees (continued)</b>	<ul style="list-style-type: none"><li>• Closing fee: \$400</li></ul> <p>EDA will use a 3% administration fee that will be in addition to the \$20 million funding for administration to process applications and to cover other operating fees since fees to applicants are reduced.</p> <p>EDA will use an additional amount up to \$250,000 to hire temporary employees for processing if deemed necessary.</p>
<b>Disbursement</b>	Approved loan amount to be fully disbursed upon closing.