

Small Business Loan Program (Act 448 of 1999, as amended) Rules and Regulations

I. Introduction

The Small Business Loan Program creates a program designed to stimulate economic growth, concentrating in “economically deprived areas,” by appropriating funds to be used as participation loans which are originated by approved community lenders for small businesses in the state. The program, by offering participating lending, mitigates risk for community lenders. In turn, this creates greater access to capital for small businesses.

II. Definitions

- A. “Applicant” refers to the small business as defined herein, as opposed to the community lender participating in the loan.
- B. “Commission” means the Arkansas Economic Development Commission.
- C. “Community Lender” means any organization that is involved in making loans to small businesses within Arkansas.
- D. “Department” means the Arkansas Department of Economic Development.
- E. “Director” is the Director of the Arkansas Department of Economic Development.
- F. “High unemployment” means an unemployment rate equal to or greater than one hundred fifty percent (150%) of the state’s average unemployment rate for the preceding calendar year as specified by statewide annual labor force statistics compiled by the Arkansas Employment Security Department, when the state’s annual average unemployment is six percent (6%) or lower. When the state’s unemployment rate is above six percent (6%), “high unemployment” means unemployment equal to or greater than three percent (3%) above the state’s average unemployment rate for the preceding calendar year as specified by statewide annual labor force statistics compiled by the Arkansas Employment Security Department.
- G. “Small business” means a business enterprise with fewer than 50 full-time employees and less than one million dollars (\$1,000,000) in annual gross sales or receipts for the preceding fiscal year, as reported on the company’s annual financial statements.

- H. “Small business person” means an individual firm, partnership, limited liability company, corporation, or any other business entity in any form, which owns and operates a small business.

III. To Qualify for the Program a Business Must

- A. Be an eligible business defined by the following:
1. A sole proprietorship, partnership, limited liability company, corporation, or any other business entity in any form of business enterprise located within the state of Arkansas, with fewer than fifty (50) full-time employees and less than one million dollars (\$1,000,000) in annual gross sales or receipts for the proceeding full reporting year
 2. Engaged in lawful commercial activity, excluding agricultural production (farming).
 3. The project must provide reasonable expectations for job creation. The \$1 million gross sales and 50 employee test will be applied to any partner, owner, or substantial stockholder of the applicant.

IV. Powers and Duties of the Department of Economic Development

- A. The department’s participating share of any loan shall not exceed fifty percent (50%) of the total loan amount, and the department’s share shall be in an amount not less than twenty five hundred dollars (\$2,500) and not more than forty thousand dollars (\$40,000).
- B. The department will share on a pari passu (pro-rata) basis with the originating community lender, all collateral, guarantees, repayments and recoveries on loans made in this program.
- C. The Department shall give preference to businesses located in high unemployment counties.
- D. Non-profit community lenders must submit written requests, along with their own current audited financial statements, to the department for consideration for approval to participate in this lending program. To qualify for approval, non-profit community lenders must have a minimum net worth that is at least five times the amount of their participation on any loan, a proven history of successful lending with no more than a 25 percent loss ratio, over the preceding two (2) year period immediately prior to the request, and meet any other tests as deemed appropriate by the Commission. The Commission, taking into consideration special circumstances, may review the minimum qualifications for approval as a non-profit community lender. The Department will notify the non-profit community lender within 35 days of the lender submitting the required information of, the results of the Commission’s review of those documents.
- E. Commercial community lenders regulated by a federal entity such as FDIC, or its equivalent, shall be required to submit evidence that they are a lender in good

standing with the appropriate federal regulatory body to be approved by the Commission. The Department will notify the commercial community lender, within 35 days of the lender submitting the required information, of the results of the Commission's review of that evidence.

V. Terms and Conditions of the Loan Agreement

- A. The applicant must obtain a list of approved lenders from the Department and contact one of the approved lenders for a pre-application meeting. The community lender will determine that both the project and the applicant meet the minimum qualifications.

- B. Applicant should work with the community lender to assemble the required documentation which includes, but is not limited to:
 - 1. Description of the business
 - 2. Amount of the loan
 - 3. Use of Proceeds
 - 4. Financial statements of the business, both historical and projected
 - 5. Due diligence - credit report, personal financial statements, etc.
 - 6. Terms of the proposed loan
 - 7. Collateral for the loan
 - 8. Impact statement
 - 9. Demonstrated need

- C. Loan Proceeds may be used for the following purposes
 - 1. Purchase machinery and equipment
 - 2. Working capital
 - 3. Purchase, construct, or renovate commercial real estate

- D. Terms of the loans will be limited to the following:
 - 1. 10-20 years for real estate, fully amortized, no call features
 - 2. 5-10 years for equipment, fully amortized, no call features
 - 3. 3-5 years for working capital

VI. Administration of Benefits

- A. If the qualified lender approves the loan, the completed application will be submitted to the Small and Minority Business Unit of the Department.

- B. The application packet should be accompanied by a letter of commitment from the community lender.

- C. Within thirty (30) days of the receipt of a completed project plan from a certified community lender applying for matching funds, the application will be presented to the Executive Director. The Finance Unit will review the application and make a recommendation to the Executive Director.
- D. If the project is approved, a commitment letter will be sent to and funds dispersed through, the community lender.
- E. Qualifying Lender will be required to report the status of each loan made under this program to the Department quarterly.