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Pennsylvania Minority Business Development Authority Loan

Program Guidelines

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Commonwealth of Pennsylvania
Tom Wolf, Governor

Department of Community & Economic Development



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Section I – Program Requirements

A. Introduction

The Pennsylvania Minority Business Development Authority (PMBDA) Program is designed to stimulate the creation, retention and expansion of minority owned businesses and to create jobs in Pennsylvania. PMBDA provides low-interest loans to finance a portion of the costs of land, building, machinery and equipment, and working capital to minority business enterprises unable to fully finance these projects with equity, bank financing, or other private and public sources.

B. Eligible Applicants

An eligible applicant is a for-profit business enterprise that is owned or controlled by one or more socially or economically disadvantaged persons who are residents of this commonwealth. The disadvantage, regardless of sex or marital status, may arise from cultural, racial, chronic economic circumstances or background or other similar cause. Such persons include, but are not limited to: African Americans, Hispanic Americans, Asian Americans, Native Americans, Eskimos, and Aleuts.

The applicant may be a sole proprietorship, partnership or corporation. If the enterprise is a sole proprietorship, the applicant must be at least 18 years old and must commit to full-time management and control of the enterprise. If the enterprise is a partnership, at least 51% of the partners must be socially or economically disadvantaged residents of the commonwealth who own a majority interest that provides for management and control of the partnership. If the enterprise is a corporation, its officers and at least 51% of the owners of the voting stock must be socially or economically disadvantaged residents of this commonwealth.

Commonwealth residency must exist at the time an application is submitted or the principals must certify that residency will be established on or before the closing of a loan.

C. Eligible Costs

1. **Land Costs:** Land costs directly associated with the purchase, renovation, or new construction of a building or production facility, including, but not limited to, acquisition, site preparation and testing, utilities, site mapping, landscaping, legal, and other related costs.
2. **Building Costs:** Building costs may include, but are not limited to, building acquisition, construction, rehabilitation, engineering, architectural, legal, and other related costs. New construction projects are permitted to lease up to 49% of the space to tenants who would qualify as eligible applicants for PMBDA funds.
3. **Machinery and Equipment Costs:** Machinery and equipment costs may include, but are not limited to, costs of acquisition, delivery, and installation. Such costs are eligible if associated with acquisition of machinery and equipment that the applicant has newly purchased, even if such machinery had previously been in service with an unrelated user.
4. **Working Capital:** Capital used by a business for operations, including without limitation, personnel and training costs.
5. **Limitations on Costs**
 - a. Unrealized appreciation in land or building value may NOT be considered in determining eligible costs.

- b. Fees charged to the applicant by brokers, finders, financing consultants and economic development organizations are not eligible project costs, except the fees payable to PMBDA.
- c. Costs of mobile equipment are eligible if, and only if; such equipment is not titled or registered for highway use.

D. Terms

Land and Building: Repayment period up to ten (10) years.

Machinery and Equipment: Repayment period up to seven (7) years.

Working Capital: Repayment period up to three (3) years.

In projects where two or more uses of PMBDA funds are planned, loan terms may be blended.

E. Loan Size

PMBDA will not fund more than 75% of the eligible project cost, subject to the following limitations:

1. The maximum amount of a loan for a project may not exceed \$250,000. If a project is located within an Enterprise Zone as designated by the Department of Community and Economic Development (DCED) or is located within a redevelopment area, the maximum amount of a loan may not exceed \$350,000.
2. If a project involves an industrial enterprise, a manufacturing enterprise, advanced technology, a regional or National franchise, international trade, or business acquisitions, the maximum amount of a loan may not exceed \$500,000. If such a project is located within an Enterprise Zone as designated by DCED or is located within a redevelopment area, the maximum amount of a loan may not exceed \$750,000.
3. Funds from other sources must equal at least 25% of eligible project costs. Loans will be made in conjunction with another source or sources of financing for the eligible costs incurred, such as another lender or equity injection from the principal(s) or investors. Matching lending sources that have superior lien positions to the PMBDA loan or participate with the PMBDA loan must have either equivalent or longer terms than the PMBDA loan.

F. Interest Rate

Please contact DCED for current interest rate.

G. Restrictions

1. **No Delinquencies** - The applicant and its principals may not be delinquent in or in default of any existing private or public loan or other obligation relating to the applicant, unless the applicant or principal has entered into a workout agreement with the respective creditor(s) and are fully in compliance with the terms of that agreement. The applicant and its principals will be required to execute an affidavit to that effect. For purposes of the program, a "principal" of an applicant is any record or beneficial owner of 20% or more of an ownership interest in the applicant.
2. **Taxes Current** - The applicant and its principals must be current in payment of all applicable federal, state and local taxes unless they have entered into a workout agreement with each respective taxing authority and are fully in compliance with the terms of that agreement.
3. **Conflicts of Interest** - The applicant and its principals and managerial officers must disclose any potential conflicts of interest with any officials or employees of DCED or with any members of the Board of Directors of PMBDA.

H. Ineligible Activities

Projects are not eligible for funding if they involve any of the following:

1. A restaurant, except for regional or national franchises.
2. A bar, tavern or other business enterprise established for the principal purpose of dispensing alcoholic beverages.
3. Refinancing any portion of the total project cost, except for short-term “bridge” financing where the bridge financing is being promptly replaced by the proceeds of the loan and the bridge financing has been disclosed to PMBDA in connection with its review of the loan.
4. Speculation in any type of property, real or personal, except for new construction where 49% of the project will be leased to PMBDA eligible businesses.
5. Providing funds, directly or indirectly, for payment, whether as loan repayment, dividend distribution, return of capital, loans, or otherwise, to principals, owners, partners or shareholders of the applicant, except as ordinary compensation for services rendered.
6. Related party transactions where the buyer and the seller are one and the same or are related to each other by blood, marriage, or law.
7. Projects which have commenced, or to which the applicant has committed, before receiving approval of the PMBDA loan, unless the applicant has received non-prejudicial approval from PMBDA to commence.

The applicant, with the approval of the Executive Director, may request “non-prejudicial approval” from PMBDA. If PMBDA grants non-prejudicial approval, the applicant may commence and start with the project while its loan is under review. **In such instances, the applicant is continuing at its own risk in the event that PMBDA does not approve the loan.**

After receiving “non-prejudicial approval,” the applicant may place orders, sign sales agreements, and make security deposits on machinery and equipment and land and buildings prior to Board approval by PMBDA without making its project ineligible. However, unless there is a non-prejudicial approval in place, the applicant may not, prior to the PMBDA’s loan approval (1) transfer title or occupy the land or buildings to be financed with the loan; (2) install or use the machinery and equipment except pursuant to a short-term lease or similar arrangements subject to cancellation by the applicant without substantial penalties; or (3) finance any working capital needs.

I. General Program Requirements

1. **Creation or preservation of jobs -**
 - a. For every \$15,000 in loan proceeds of \$100,000 or less, a project shall create or preserve at least one permanent full-time job, or the equivalent in part-time jobs. The jobs shall be created or preserved, without exception, within 3 years of the date that any amount of the proceeds from the loan are first disbursed to the loan recipient.
 - b. For every \$15,000 in loan proceeds over \$100,000, a project shall create at least one permanent full-time job or the equivalent in part-time jobs. The jobs shall be created, without exception, within 3 years of the date that any amount of the proceeds from the loan are first disbursed to the loan recipient.

- c. If a project fails to meet its job projections within 3 years from the date of closing due to factors within the control of the enterprise, the Board may reset the interest charged on the loan at a rate not to exceed double the amount of the original interest rate.
 - d. For purposes of this section, the phrase “the equivalent in part-time jobs” means at least 35 total hours per week of part-time labor.
2. **Loan Security** - All loans must be secured at the highest lien position available on one or more of the following assets: land, buildings, machinery, equipment, accounts receivable, and inventory. PMBDA must have a collateral lien position on the assets being funded unless specifically waived. In addition, PMBDA may require personal or corporate guarantees or may require other types of collateral as circumstances allow.
 3. **Relocation** - The applicant may not relocate from one area of the commonwealth to another without at least a 25% increase in net employment. For purposes of this provision, no relocation which is either (a) within the same county, or (b) within the same labor market as determined by the United States Department of Labor shall be deemed to be a relocation from one area of the commonwealth to another.

Section II – The Application Process

A. Single Application Instructions

To apply for funding, the applicant must submit the electronic on-line DCED Single Application for Assistance located at www.esa.dced.state.pa.us and also must print 1 copy of the entire Single Application for Assistance and send via US mail to The Pennsylvania Minority Business Development Authority office along with the required supplemental information and the Signature Page. Please reference the Web ID number on any documents sent with the Signature Page, or sent via e-mail.

B. Required Supplemental Information

1. Signed IRS Form W9 to verify company name & tax ID#
2. Narrative describing the business, marketing and operational plans.
3. Signed and dated personal financial statements for any principal. A principal is any individual having ownership of 20% or more in the business.
4. Resumes of the principals/management
5. Copies of last 3 years' personal (if new business) and/or business income tax returns - federal and state
6. Complete fiscal year end financial statements (accountant prepared) for the prior three years and one year projections. Start-up businesses should submit three-year projections.
7. Commitment letter from all other leading/financing sources.
8. A copy of the executed sales agreement for land and/or building acquisition.
9. Property appraisal if funds are to be used for purchasing land and/or building, and that asset will be used as collateral for the loan.

10. If the business or an affiliate received a previous PMBDA loan, include the date, amount, recipient and PMBDA project and loan number for prior loan(s).
11. Proposed security for the PMBDA loan - personal property, certificates of deposit, business property, etc.
12. Include a statement reflecting the number of existing full-time jobs. If a job-creation loan, include the number of full-time jobs within three years that will be created at the project site.

The above information must be complete before presentation to the PMBDA Board of Directors for loan approval.

C. Application Approval and Closing

Upon approval of an application by the PMBDA Board of Directors, a commitment letter will be prepared and sent to the applicant. The commitment letter will set forth the terms and conditions under which the loan will be made and will provide a list of items to be provided by the applicant in order to close the loan. After the applicant signs and returns the commitment letter, accompanied by a nonrefundable commitment fee equal to one-percent [1%] of the loan amount, loan closing will be scheduled between the applicant and the DCED Office of Chief Counsel.

D. Limitations and Penalties

1. Failure to meet any of the terms or conditions of the loan may result in an increase in the interest rate to a rate not exceeding 2% above the current prime interest rate on the outstanding principal for the remainder of the loan unless it is determined by PMBDA that failure was due to circumstances beyond the control of the business.
2. Any material misrepresentation in any application or use of loan funds for ineligible activities may be cause for rejection of an application or for calling a PMBDA loan in default. In addition, the matter may be referred to the appropriate authorities for criminal investigation.
3. Applicants may prepay a PMBDA loan at any time without financial penalty.
4. Upon reasonable request of PMBDA, the applicant shall permit duly authorized employees of PMBDA, DCED or the commonwealth to inspect the plant, books and records of the applicant.

E. Contact Information

1. Electronic Single Application for Assistance questions should be directed to:

Pennsylvania Department of Community and Economic Development
Customer Service Center
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, Pennsylvania 17120-0225

Telephone: 866-466-3972, (800) 379-7448 or (717) 787-3405

Fax: (717) 783-4662

2. Inquiries and hard copies of the program guidelines, including required supplemental information, should be directed to:

Pennsylvania Minority Business Development Authority
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, Pennsylvania 17120-0225

Telephone: (717) 214-5321

Fax: (717) 213-5402