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# Report of the Small Business Loan Guarantee Program

Office of Business Finance  
12/31/2020

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# Program Background

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The Minnesota Small Business Loan Guarantee (SBLG) Program is authorized under Minn. Stat. 116J.881. Although the program was initially authorized in 2011 (Laws of Minnesota 2011, 1<sup>st</sup> Spec. Sess., chapter 4, article 2, section 3) the program was inactive until the legislature provided funding in 2020.

Due to the economic impact of the COVID-19 pandemic on business operations, the legislature revisited the statute language (Minn. Stat. 116J.881) during the 2020 regular session. Statute language was modified (Laws of Minnesota, chapter 71, article 2, section 3) to allow the SBLG program to meet the capital needs of those business affected by COVID-19 through the provision of loan guarantees through participating lenders for up to 12 months after a declaration of a peacetime public health emergency (Executive Order 20-01, March 13, 2020).

The legislature appropriated \$10 million for the program (Laws of Minnesota 2020, chapter 71, article 1, section 12). The legislature later reduced the appropriation for the program to \$7.5 million (Laws of Minnesota 2020, 1<sup>st</sup> Spec. Sess., chapter 1, section 3) with the \$2.5 million transferred to the Small Business Relief Grant Program (Laws of Minnesota 2020, 1<sup>st</sup> Spec. Sess., chapter 1, section 4).

The SBLG program provides lenders an 80 percent loan guarantee up to a maximum of \$200,000. All loans will be made by lenders enrolled in the program - no loans will come directly from DEED. The guarantee is provided to the lender to help mitigate risk and no direct lending capital is provided by the program. Businesses must apply for loan through participating lenders with each lender utilizing their own underwriting and loan evaluation criteria. Lending decisions are at the sole discretion of the lending institution.

Loans can be used for a variety of purposes and can be subordinate to other financing. Allowable loan uses must be exclusively in Minnesota and include machinery or equipment purchases, maintenance, or repair; expenses related to moving into or within Minnesota; and working capital when the working capital is secured by fixed assets when possible. The program can guarantee loans only made to Minnesota businesses with fewer than the equivalent of 250 full-time employees. The number of employees includes the parent company and all business locations in Minnesota.

The following entities are eligible to participate as lenders in the program: a bank or other commercial lender, a public entity, or a private nonprofit economic development organization located in Minnesota. All must have at least three years of active lending experience and provide financing to small businesses. To begin enrolling loans in the guarantee program, lenders must first complete the lender enrollment application. Once a lender has been approved to participate, the lender may submit new loans to the Department along with a completed loan enrollment application (a separate application submitted with each loan). A fee of .25 percent on the guarantee loan principal is required for each loan enrolled into the program. All program materials can be found at <https://mn.gov/deed/business/financing-business/deed-programs/loan-guarantee/>.

The data and information contained in this report was current as of December 1, 2020. Per law (Laws of Minnesota 2020, chapter 71, article 1, section 12), this one-time report is required to be submitted to the legislature by December 31, 2020.

## Participating Lenders

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Through December 1, 2020, 79 lenders had enrolled in the program:

- 69 banks and credit unions,
- 7 Initiative Foundations, CDCs and other nonprofit lenders, and
- 3 public entities.

These lenders were located throughout the state with 75 percent (60) located outside the Twin Cities metro area as shown in Figure 1.

**Figure 1 – Enrolled Lenders**

<b>Minnesota Initiative Fund Region</b>	<b>Number of Enrolled Lenders</b>
Central	11
Northeast	8
Northwest	9
Southern	17
Southwest	9
West Central	6
Twin Cities	19
<b>State</b>	<b>79</b>

## Loan Activity

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Since launching, the program has enrolled 76 loans. These loans have a value of \$8.9 million and a corresponding guarantee of \$7.1 million. Most (64) of these loans were enrolled prior to July 31, 2020.

Although 75 percent of the lenders are located in Greater Minnesota, these lenders accounted for about 46 percent of enrolled loans and 46 percent loan guarantee value. The northeast and southwest regions represent two-thirds of overall Greater Minnesota activity. Figure 2 provides detailed loan activity by region including the \$22,000 in fees that have been earned by the program. As of December 1, no loans have defaulted and no guarantees have been paid.

**Figure 2 - Loan Activity**

<b>Region</b>	<b>Number of Loans Enrolled</b>	<b>Value of Loan Guaranteed</b>	<b>Value of Guarantee</b>	<b>Enrollment Fees Earned</b>
Central	2	\$450,000	\$360,000	\$1,125
Northland	12	\$1,508,934	\$1,253,089	\$3,916
Northwest	0	\$0	\$0	\$0
Southern	6	\$959,694	\$767,755	\$2,412
Southwest	12	\$945,000	\$756,000	\$2,363
West Central	3	\$180,000	\$144,000	\$450
Twin Cities	41	\$4,814,000	\$3,851,200	\$12,035
<b>Program Totals</b>	<b>76</b>	<b>\$8,857,628</b>	<b>\$7,132,044</b>	<b>\$22,301</b>

## Industry

The program has provided loan guarantees to businesses in a variety of industries. Two industries - accommodation and food services, and retail trade – were the most active participants in the program. These industries accounted for 42 percent of the loans but only 27 percent of guarantees as the average guarantee of \$60,132 was smaller than the program average of \$93,843. See Figure 3 for details on industry distribution.

**Figure 3 – Industry of Businesses Receiving Loan Guarantees**

Industry	Number of Loans Enrolled	Value of Guarantee
Accommodation & Food Services	16	\$1,101,030
Retail Trade	16	\$823,200
Construction	9	\$1,371,670
Manufacturing	9	\$1,001,589
Health Care & Social Assistance	5	\$280,000
Administrative Support, Waste Management & Remediation Services	4	\$377,430
Arts/Entertainment & Recreation	4	\$520,000
Agriculture, Forestry, Fishing & Hunting	3	\$400,000
Transportation & Warehousing	3	\$265,205
Wholesale Trade	3	\$360,000
Professional, Scientific & Technical Services	2	\$299,120
Educational Services	1	\$160,000
Dry Cleaning and Laundry Services	1	\$172,800
<b>Program Totals</b>	<b>76</b>	<b>\$7,132,044</b>

## Use of Loan Funds

As shown in Figure 4, nearly 80 percent of the loans guaranteed by the program have been targeted for working capital. These loans corresponded to about 74 percent of the loan value. Other uses include 15 loans for equipment (20 percent) and one loan for maintenance and repair.

**Figure 4 – Use of Loan Funds**

Use of Funds	Number of Loans Enrolled	Value of Guarantee
Equipment	15	\$1,761,425
Maintenance & Repair	1	\$60,800
Working Capital	60	\$5,309,819
<b>Program Totals</b>	<b>76</b>	<b>\$7,132,044</b>

## Lenders Enrolling Loans

As shown in Figure 5, the 19 lenders that have enrolled loans represent a wide variety of lenders:

- Banks and Credit Unions – 12
- Initiative Foundations, CDCs and other nonprofit lenders - 6
- Public entity - 1

Although 19 of the 79 lenders have enrolled loans in the program, most lenders (14) have enrolled three or fewer loans. Two lenders account for 43 percent of the enrolled loans – St. Paul Port Authority (22) and the Southwest Initiative Foundation (11). However, these lenders represent only 22 percent of the overall loan value.

**Figure 5 – Loan Activity by Lender**

<b>Lender</b>	<b>Loans</b>	<b>Value of Loan Guaranteed</b>	<b>Value of Guarantee</b>
Cambridge State Bank	1	\$200,000	\$160,000
Drake Bank	3	\$600,000	\$480,000
First National Bank of Cokato	3	\$575,000	\$460,000
First State Bank of Rosemount	2	\$466,000	\$372,800
Hometown Community Bank	1	\$80,000	\$64,000
Members Cooperative Credit Union	3	\$422,088	\$337,670
Metropolitan Economic Development Association (MEDA)	3	\$310,000	\$248,000
Midwest Minnesota Community Development Corporation (MMCDC)	2	\$100,000	\$80,000
Neighborhood Development Center (NDC)	1	\$40,000	\$32,000
New Market Bank	4	\$800,000	\$640,000
North American Banking Company	3	\$650,000	\$520,000
Northeast Entrepreneur Fund	1	\$151,986	\$121,589
Northland Foundation	5	\$558,860	\$493,030
Pioneer Bank	1	\$150,000	\$120,000
Reliance Bank	3	\$709,694	\$567,755
Security Bank & Trust	3	\$500,000	\$400,000
Security State Bank of Hibbing	4	\$551,000	\$440,800
St. Paul Port Authority	22	\$1,123,000	\$898,400
Southwest Initiative Foundation (SWIF)	11	\$870,000	\$696,000
<b>Program Totals</b>	<b>76</b>	<b>\$8,857,628</b>	<b>\$7,132,044</b>

## Closing

The SBLG program has been operating for about 6 months and interest appears to have peaked. More than 84 percent of the loan activity (64 of the 76 enrolled loans) occurred prior to July 31 and since then loan activity has slowed considerably. Moreover, many lenders are concerned that the allowable program leverage of up to 5:1 is too high and an unexpected level of loan defaults could result in lenders not receiving the full 80 percent guarantee. In other words, the department has the authority to guarantee \$37.5 million in loans meaning the \$7.5 million in funding may not be able to cover all guarantees if the level of loan default exceeded than 20 percent.

Although per law the program cannot accept loan enrollments later than March 12, 2021, due to the slowing loan enrollment activity and the lender concern about issuing guarantees above the \$7.5 million in funding the department may need to cease accepting additional loan enrollments prior to that date if enrolled loans increase significantly in the coming weeks. If the program stops accepting applications, lenders will be given adequate notice so they have sufficient time to enroll any pending loans.

Lisa Dargis and Tom Washa with DEED's Office of Business Finance have administered the program. For questions about the program or this report, please contact Bob Isaacson, Executive Director, Office of Business Finance in DEED's Economic Development Division.