

**MicroLOAN SOUTH DAKOTA**  
Building South Dakota Communities

**POLICIES AND PROCEDURES**

**A PARTNERSHIP WITH BOARD OF ECONOMIC DEVELOPMENT  
SOUTH DAKOTA DEVELOPMENT CORPORATION AND  
SOUTH DAKOTA DEPARTMENT OF TOURISM AND STATE  
DEVELOPMENT**

# **MicroLOAN South Dakota Policies and Procedures**

## **INTRODUCTION**

The policies and procedures outlined in this document provide a framework within which MicroLOAN South Dakota will operate. The policies herein have been set by a Loan Committee consisting of seasoned bankers and business people with a goal of furthering economic development for the State of South Dakota. The parameters of the program should be adhered to and changes in the policies and procedures can only be made by the individuals referenced below.

Periodic reviews of the program will be conducted by the Chairman of the South Dakota Development Corporation (SDDC), the Secretary of the Department of Tourism and State Development (DTSD), the Director of the Governor's Office of Economic Development (GOED) and a representative of the Board of Economic Development (BED). The policies should remain flexible enough to enable the program to be able to meet the needs of the industries in our state.

The intent of the program is to provide low interest, gap financing for small businesses for which other types of financing might not be available. The primary bank should assist applicant in preparing the application for filing with the DTSD. Once the Loan Committee approves an application, the primary bank will be responsible for closing both loans. The SDDC will then purchase the loan which conforms to the MicroLOAN criteria. The primary bank will establish an automatic withdrawal plan for borrower's monthly payments to the servicing entity.

**The borrower should be made aware that any prepayment of principal of the bank's loan will cause a corresponding prorata principal reduction of the MicroLOAN.**

## **CREDIT CRITERIA**

MicroLOAN South Dakota will base its credit decisions on the following criteria:

1. The small business must meet the eligibility requirements of the program.
2. The small business must show the ability to service the debt.
3. The management of the small business must have the ability to conduct the business and show commitment to the project.
4. The payment history of the small business with other lenders and creditors must be satisfactory.
5. The review of proposed collateral must be satisfactory.
6. The credit history of borrowers and guarantors of the loan must be satisfactory.

A loan payment will be considered late when the scheduled loan payment has not been made on or prior to its scheduled date and late payments will incur the appropriate fees. The borrower's primary bank will determine the actions to be taken for delinquent loan payments.

### **Eligibility Requirements**

- Loans can be made available to small businesses within the borders of South Dakota, whose owners are South Dakota residents, including main street and retail operations for working capital, equipment, real estate or other fixed asset project costs.
- Businesses involved in any type of gaming operations, gambling, pornography, illicit activities or any affiliated activity are prohibited from applying for MicroLOAN South Dakota funds. Any business which has received MicroLOAN South Dakota funds and subsequently derives any portion of their revenue from the previously mentioned activities prior to repaying all principal and interest on their MicroLOAN South Dakota loan, shall be deemed to be in default of their MicroLOAN agreement. Non-profit businesses and agricultural production are not eligible to apply for MicroLOAN funds. MicroLOAN funds may not be used for refinancing purposes.
- Applicants must have a primary bank in place, that agrees with the Agency Agreement and the Loan Participation Agreement, prior to applying to the South Dakota MicroLOAN Fund.

## **Application Process**

- The MicroLOAN application must be completed and submitted to the MicroLOAN program loan officer with a cover letter from the primary bank. The primary bank must agree to the Agency Agreement and the Loan Participation Agreement. The application must include the primary bank's credit analysis, including personal financial statements for applicant(s) and any guarantors, and the terms of the bank's participation. Please see attached application for the MicroLOAN Fund.
- The MicroLOAN program loan officer will take applications to the next scheduled loan committee meeting, usually within 30 days of receiving a complete application package for the MicroLOAN program.

## **Loan Criteria/Structure of Loans**

- The maximum loan amount will be \$50,000.00 and the minimum loan amount will be \$1,000.00. The MicroLOAN program can participate up to 50% of the total project costs and the primary bank may not fund less than 50% of the total project costs. Total project costs may not exceed \$200,000.
- Total MicroLOAN proceeds outstanding at any one time, to a single borrower, may not exceed \$50,000. MicroLOAN funds may not be used for refinancing purposes.
- The equity injection requirement may be determined by primary bank. The Loan Committee may require an equity injection when the MicroLOAN portion of a project exceeds \$20,000 and will require a 10% equity injection when the MicroLOAN portion of a project exceeds \$35,000.
- The interest rate for new applicants is 3%. The Loan Committee may adjust the rate on a quarterly basis, for new loans. The term of the loan will not exceed five years and will be amortized over the useful life of the asset being financed. Depending on the available cash flow of the company the Loan Committee can determine an earlier balloon payment shall be made.
- The loan will be secured by a subordinated position on the business assets or a subordinated real estate mortgage. Additional collateral may be required. The subordination will be to the primary bank involved in the project only. The collateral must be identical to that securing the primary bank's companion loan.
- An administrative fee will be assessed in the amount of \$50.00 or one percent of the loan amount, whichever is greater. This fee will be paid by the applicant. The applicant will also pay for any filing fees for security

instruments, title insurance, appraisals, and surveys required. The applicant will also pay any other costs associated with closing of the loan. The Loan Committee will review the administrative fees periodically.

## **Administrative Functions of Program**

- *SOUTH DAKOTA DEVELOPMENT CORPORATION (SDDC)*  
This board will act as the vehicle to structure the MicroLOAN Fund Program.
  
- *SOUTH DAKOTA DEPARTMENT OF TOURISM AND STATE DEVELOPMENT (TSD) will:*
  - Process the application as provided by the applicant.
  - Take the application before the Loan Committee Board.
  - Keep a database of all loans approved, closed and funded.
  - Provide quarterly and annual financial statements to SDDC.
  - Enact a Servicing Agreement with BankWest, Inc. to monitor payments and accept disbursements from BED
  - Provide a Loan Officer to become the coordinator of this program and report to the Loan Committee.
  - Market the program through different avenues including a brochure and the offices regional representatives.
  - Review the loan closing information prior to disbursing funds to make sure security instruments are in place.
  - Make recommendations to the Loan Committee.
  
- *LOAN COMMITTEE will:*
  - Review applications as brought before them and will render an approval or not approve the loan as requested.
  - Review any additional requests as submitted by primary lender.
  - Be comprised of six members and the committee must have at least three people present from Loan Committee to review the applications and render decisions.
  - Review the administrative loan fee periodically to determine adequacy.
  
- *PRIMARY BANK will:*
  - Provide a credit analysis to the TSD for review, and agree to both the Loan Participation Agreement and the Agency Agreement.
  - Provide a plan for liquidation or an extension of the loan if a loan is 60 days past due.
  - Be responsible for the closing of both loans, providing the necessary loan documentation to the TSD, and setting up a monthly automatic payment plan for the borrower, prior to receiving funds.

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