



# **Blue Earth Economic Development Authority Forgivable Loan**

## **OVERVIEW**

The purpose of this program will be to provide for the promotion and continuation of existing businesses within the City of Blue Earth. Most of these businesses are owned and operated by one individual or a family. The forgivable loan/grant program will provide an incentive for an individual to purchase an existing business and continue operations. A business is defined as a for profit business that requires at least 1 full time (40 hours per week) employee or 2 part time (equaling 40 hours per week) employees.

## **APPLICATION PROCEDURE**

The Blue Earth EDA Director serves as the loan officer. The EDA Director will gather preliminary details of the project. A full application is provided by the applicant and reviewed by the EDA Director. The application is then referred to the Loan Review Committee, where it will be presented through an informational summary.

A Loan Review Committee consisting of two members of the Blue Earth EDA Board and the City Administrator reviews the summary. The Loan Review Committee may call a second meeting to include the applicant before recommendation to the EDA. The EDA Director and Loan Review Committee will complete the due diligence worksheet.

The Loan Review Committee provides a recommendation to the EDA Board for final authorization. No loan shall be made prior to EDA authorization.

## **QUALIFICATIONS**

1. The business being purchased must have been operating for the past three years.
2. The business will require at least 1 full time employee, 2 part time employees or 3 Seasonal Employees. Total employee hours must be at least 40 hours per week.
3. Projections from new owner must show a positive cash flow and ability to service all debt related to the business purchase.
4. All qualifications are at the discretion of the EDA and may be changed or amended at the discretion of the EDA. Qualifications may be changed or amended on a case by case basis.

## LOAN

- The loan needs to be approved **prior** to the purchase of the business to qualify.
- The loan amount will be a 2:1 match of the purchaser's personal investment towards the acquisition. The maximum loan amount will be \$25,000.
- The loan amount will be a direct correlation with the percent of the business being purchased. If the purchaser is buying 25% of the business they are eligible for 25% of the \$25,000 maximum. This applies to all percentage amounts.
- Should the purchaser buy an additional percentage of the business they will be eligible for that percentage, up to 100% total per business.
- Minimum percentage purchased to qualify for a percentage of the forgivable loan is 25% of the business.
- Contract for Deed is not an acceptable loan.
- The loan will charge a fixed rate of interest equal to prime (Wall Street Prime) at the time of closing. The purchaser will pay interest.
- The loan will be secured by sufficient collateral and personal guarantees from the purchaser.
- For each year, the business stays open, and the purchaser meets the requirements of this program 20% of the original balance will be forgiven. At the end of the five (5) years should all the conditions of this program have been met the remaining principal balance will be forgiven.
- Should the business be sold during the five (5) years the entire remaining principal balance becomes due
- The EDA will budget \$75,000 for this program. If that amount is reached, the program will be closed until the following year.
- If the person purchasing the business is purchasing a percentage of the business, then the amount of the loan is directly correlated to that percentage. Example if you are buying 25% of the business, you are eligible for up to 25% of \$25,000.

*Note: The costs for preparation and filing of the documents necessary to document the loan and security interests granted to the Economic Development Authority will be deducted from the loan proceeds.*