

MAR 18 2003

Place On Calendar

HOUSE FILE 621
BY COMMITTEE ON ECONOMIC
GROWTH

(SUCCESSOR TO HSB 290)

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to creating a loan and credit guarantee program
2 and fund.

3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 621

1 Section 1. NEW SECTION. 15E.221 SHORT TITLE.

2 This division shall be known and may be cited as the "Iowa
3 Economic Development Loan and Credit Guarantee Fund Act".

4 Sec. 2. NEW SECTION. 15E.222 LEGISLATIVE FINDING --
5 PURPOSES.

6 1. The general assembly finds all of the following:

7 a. That small and medium-sized businesses, in general, and
8 certain targeted industry businesses, in particular, are
9 adversely affected by the current credit crisis.

10 b. That small businesses have historically had a difficult
11 time obtaining credit, especially on terms that allow them to
12 grow and to create jobs.

13 c. That the limited availability of credit for export
14 transactions limits the ability of small and medium-sized
15 businesses in this state to compete in international markets.

16 d. That, to enhance competitiveness, this state must focus
17 on and foster growth in certain specific targeted industry
18 businesses.

19 e. That the challenge for the public economic sector is to
20 design programs, in conjunction with lending institutions in
21 the private sector, which fill the gaps in credit availability
22 and export finance.

23 2. The general assembly declares the purposes of this
24 division to be all of the following:

25 a. To create incentives and assistance to increase the
26 flow of private capital to targeted industry clusters.

27 b. To promote industrial modernization and technology
28 adoption.

29 c. To encourage the retention and creation of family wage
30 jobs.

31 d. To encourage the export of goods and services sold by
32 Iowa businesses in national and international markets.

33 Sec. 3. NEW SECTION. 15E.223 DEFINITIONS.

34 As used in this division, unless the context otherwise
35 requires:

1 1. "Financial institution" means an institution listed in
2 section 422.61, subsection 1, or such other financial
3 institution as defined by the department for purposes of this
4 division.

5 2. "Program" means the loan and credit guarantee program
6 established in this division.

7 3. "Qualified business" means an existing or proposed
8 business entity with an annual average number of employees not
9 exceeding two hundred employees that sells goods or services
10 in markets for which national or international competition
11 exists. "Qualified business" includes professional services
12 businesses that provide services to targeted industry
13 businesses and other entities within and outside of this
14 state.

15 4. "Targeted industry business" means an existing or
16 proposed business entity, including an emerging small business
17 or qualified business which is operated for profit and which
18 has a primary business purpose of doing business in at least
19 one of the targeted industries designated by the department
20 which include life sciences, software and information
21 technology, advanced manufacturing, value-added agriculture,
22 and any other industry designated as a targeted industry by
23 the department.

24 Sec. 4. NEW SECTION. 15E.224 LOAN AND CREDIT GUARANTEE
25 PROGRAM.

26 1. The department shall establish and administer a loan
27 and credit guarantee program. The department, pursuant to
28 agreements with financial institutions, shall provide loan and
29 credit guarantees, insurance, coinsurance in conjunction with
30 other providers of loan guarantee programs, or other forms of
31 credit guarantees for qualified businesses and targeted
32 industry businesses for eligible project costs. However, the
33 department shall not in any manner directly or indirectly
34 pledge the credit of the state. Eligible project costs
35 include expenditures for productive equipment and machinery,

1 working capital for operations and export transactions,
2 research and development, marketing, and such other costs as
3 the department may so designate.

4 2. In administering the program, the department shall
5 consult and cooperate with financial institutions in this
6 state. Administrative procedures and application procedures,
7 as practicable, shall be responsive to the needs of qualified
8 businesses, targeted industry businesses, and financial
9 institutions, and shall be consistent with prudent investment
10 and lending practices and criteria.

11 3. The department shall adopt a loan or credit guarantee
12 application procedure for a financial institution on behalf of
13 a qualified business or targeted industry business.

14 4. Upon approval of a loan or credit guarantee, the
15 department shall enter into a loan or credit guarantee
16 agreement with the cooperating financial institution. The
17 agreement shall specify all of the following:

18 a. The fee to be charged to the financial institution.

19 b. The evidence of debt assurance of, and security for,
20 the loan or credit guarantee.

21 c. A loan or credit guarantee that does not exceed fifteen
22 years.

23 d. Any other terms and conditions considered necessary or
24 desirable by the department.

25 5. The department may adopt loan and credit guarantee
26 application procedures that allow a qualified business or
27 targeted industry business to apply directly to the department
28 for a preliminary guarantee commitment. A preliminary
29 guarantee commitment may be issued by the department subject
30 to the qualified business or targeted industry business
31 securing a commitment for financing from a financial
32 institution. The application procedures shall specify the
33 process by which a financial institution may obtain a final
34 loan and credit guarantee.

35 Sec. 5. NEW SECTION. 15E.225 TERMS -- FEES.

1 1. When entering into a loan or credit guarantee
2 agreement, the department shall establish fees and other terms
3 that discourage participation in the program by qualified
4 businesses and targeted industry businesses with access to
5 other forms of private capital.

6 2. The department, with due regard for the possibility of
7 losses and administrative costs, shall set fees and other
8 terms at levels sufficient to assure that the program is self-
9 financing.

10 3. For a preliminary guarantee commitment, the department
11 may charge a qualified business or targeted industry business
12 a preliminary guarantee commitment fee. The application fee
13 shall be in addition to any other fees charged by the
14 department under this section and shall not exceed one
15 thousand dollars for an application.

16 Sec. 6. NEW SECTION. 15E.226 RECOMMENDATIONS.

17 The department shall consider the advice and
18 recommendations of the Iowa economic development board and the
19 superintendent of banking in administering the program.

20 Sec. 7. NEW SECTION. 15E.227 LOAN AND CREDIT GUARANTEE
21 FUND.

22 1. A loan and credit guarantee fund is created and
23 established as a separate and distinct fund in the state
24 treasury. Moneys in the fund shall only be used for purposes
25 provided in this section. The moneys in the fund are
26 appropriated to the department to be used for all of the
27 following purposes:

28 a. Payment of claims pursuant to loan and credit guarantee
29 agreements entered into under this division.

30 b. Payment of administrative costs of the department for
31 actual and necessary administrative expenses incurred by the
32 department in administering the program.

33 c. Purchase or buyout of superior or prior liens,
34 mortgages, or security interests.

35 2. Moneys in the loan and credit guarantee fund shall

1 consist of all of the following:

2 a. Moneys appropriated by the general assembly for that
3 purpose and any other moneys available to and obtained or
4 accepted by the department for placement in the fund.

5 b. Proceeds from collateral assigned to the department,
6 fees for guarantees, gifts, and moneys from any grant made to
7 the fund by any federal agency.

8 c. Moneys appropriated by the general assembly from a fund
9 enacted by the general assembly during the 2003 legislative
10 session and funded with bond sale proceeds totaling more than
11 five hundred million dollars.

12 3. Moneys in the fund are not subject to section 8.33.
13 Notwithstanding section 12C.7, interest or earnings on the
14 moneys in the fund shall be credited to the fund.

15 4. The department may pledge a total of fifty million
16 dollars of moneys in the fund to assure the repayment of loan
17 and credit guarantees or other extensions of credit made to or
18 on behalf of qualified businesses or targeted industry
19 businesses for eligible project costs. The department shall
20 not pledge the credit or taxing power of this state or any
21 political subdivision of this state or make debts payable out
22 of any moneys except for those in the loan and credit
23 guarantee fund.

24 EXPLANATION

25 This bill creates a loan and credit guarantee program and
26 fund.

27 The bill requires the department of economic development to
28 establish and administer a loan and credit guarantee program.
29 The bill provides that the department, pursuant to agreements
30 with financial institutions, shall provide loan and credit
31 guarantees, insurance, coinsurance in conjunction with other
32 providers of loan guarantee programs, or other forms of credit
33 guarantees for qualified businesses and targeted industry
34 businesses for eligible project costs. The bill provides that
35 eligible project costs include expenditures for productive

1 equipment and machinery, working capital for operations and
2 export transactions, research and development, marketing, and
3 such other costs as the department may so designate. The bill
4 provides that the department shall adopt a loan and credit
5 guarantee application procedure for a financial institution on
6 behalf of a qualified business or targeted industry business.
7 The bill provides that, upon approval of a loan and credit
8 guarantee, the department shall enter into a loan and credit
9 guarantee agreement with the cooperating financial
10 institution. The bill provides that the department may adopt
11 loan and credit guarantee application procedures that allow a
12 qualified business or targeted industry business to apply
13 directly to the department for a preliminary guarantee
14 commitment. The bill provides that a preliminary guarantee
15 commitment may be issued by the department subject to the
16 qualified business or targeted industry business securing a
17 commitment for financing from a financial institution.

18 The bill provides that, when entering into a loan and
19 credit guarantee agreement, the department shall establish
20 fees and other terms that discourage participation in the
21 program by qualified businesses and targeted industry
22 businesses with access to other forms of private capital. The
23 bill requires the department, with due regard for the
24 possibility of losses and administrative costs, to set fees
25 and other terms at levels sufficient to assure that the
26 program is self-financing. The bill allows the department to
27 charge a qualified business or targeted industry business a
28 fee for a preliminary guarantee commitment.

29 The bill requires the department to consider the advice and
30 recommendations of the Iowa economic development board and the
31 superintendent of banking in administering the program.

32 The bill creates a loan and credit guarantee fund as a
33 separate and distinct fund in the state treasury. The bill
34 provides that moneys in the fund are appropriated to the
35 department to be used for payment of claims pursuant to loan

1 and credit guarantee agreements, payment of administrative
2 costs of the department for actual and necessary
3 administrative expenses incurred by the department in
4 administering the program, and purchase or buyout of superior
5 or prior liens, mortgages, or security interests. The bill
6 allows the department to pledge a total of \$50 million of
7 moneys in the fund to assure the repayment of loan and credit
8 guarantees or other extensions of credit made to or on behalf
9 of qualified businesses or targeted industry businesses for
10 eligible project costs. The bill prohibits the department
11 from pledging the credit or taxing power of this state or any
12 political subdivision of this state or make debts payable out
13 of any moneys except for those in the loan and credit
14 guarantee fund.

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Description

House File 621 establishes the Loan and Credit Guarantee Program in the Department of Economic Development and requires the Department, pursuant to agreements with financial institutions, to provide loan and credit guarantees, insurance, coinsurance in conjunction with other providers of loan guarantee programs, or other forms of credit guarantees for qualified businesses and targeted industry businesses for eligible project costs. The Bill prohibits the Department from pledging the credit of the State and requires the Department to: cooperate with financial institutions in the State, adopt a loan or credit guarantee application procedure for a financial institution on behalf of a qualified business, and enter into a loan or credit guarantee agreement with the cooperating financial institution upon approval of a loan or credit guarantee. The proposed legislation requires the Department of Economic Development to establish fees and other terms that discourage businesses with other forms of private capital from participating in the Loan and Credit Guarantee Program. The Bill requires the Department to set fees and other terms to assure that the administration of the Program is self-sustaining. House File 621 establishes a Loan and Credit Guarantee Fund and specifies the use of the moneys in the Fund. The Fund is to be comprised of:

- Moneys appropriated by the General Assembly for the Loan and Credit Guarantee Program.
- Proceeds from collateral assigned to the Department, fees for guarantees, gifts, and moneys from any grant made to the Fund by any federal agency.
- Moneys appropriated by the General Assembly from a fund enacted by the General Assembly during the 2003 Legislative Session and funded with bond sale proceeds totaling more than \$500.0 million.

House File 621 allows the Department of Economic Development to pledge up to \$50.0 million in the Loan and Credit Guarantee Fund to assure the repayment of loan and credit guarantees or other extensions of credit made to or on behalf of qualified businesses for eligible project costs.

Assumptions

1. The Department of Economic Development would require one additional Administrative Assistant 4 FTE position at a cost of \$70,000 per year to administer the Program.
2. The Department would require \$2,000 in FY 2004 for the development and printing of program materials.
3. The Department is required to establish fees and other terms in order to make the administration of the Program self-sustaining. The established fees will be insufficient to cover the administrative cost of the Program during FY 2004. However, fee collections during FY 2005 will be sufficient to cover the administrative costs of the Program.
4. In FY 2004, ten loans or credit guarantees would be made. In FY 2005, 20 additional loans or credit guarantees would be made.
5. The average loan amount would be approximately \$250,000. The Department would charge a \$1,000 application fee per loan and would charge a processing fee equal to 1.0% of the loan amount. Total revenues for FY 2004 would be approximately \$35,000 and \$70,000 for FY 2005.

Succeeded by
SF 0621

HSB 290
ECONOMIC GROWTH

Steve Olson, Chr.
Wilderdyke
Lensing

HOUSE FILE _____
BY (PROPOSED COMMITTEE ON
ECONOMIC GROWTH BILL
BY CHAIRPERSON HOFFMAN)

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
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30 b. Payment of administrative costs of the department for
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33 c. Purchase or buyout of superior or prior liens,
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17 political subdivision of this state or make debts payable out
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20 **EXPLANATION**

21 This bill creates a loan and credit guarantee program and
22 fund.

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