



96TH GENERAL ASSEMBLY

State of Illinois

2009 and 2010

HB5420

Introduced 2/5/2010, by Rep. Deborah Mell

SYNOPSIS AS INTRODUCED:

New Act
30 ILCS 105/5.755 new

Creates the Microloan Program Act. Authorizes the Director of Commerce and Economic Opportunity to (i) make loans to eligible intermediaries for the purpose of making short-term, fixed rate loans to certain business concerns, (ii) make grants to those intermediaries to provide marketing, management, and technical assistance to small business concerns, and (iii) make grants to non-profit entities for the purpose of providing marketing, management, and technical assistance to low-income individuals under certain circumstances. Specifies criteria that eligible intermediaries must satisfy. Sets forth requirements for loans made to intermediaries; marketing, management, and technical assistance grants to intermediaries; private sector borrowing technical assistance grants; and loans to small business concerns from eligible intermediaries. Requires the Department to file certain reports with the General Assembly. Amends the State Finance Act to create the Business Loan and Investment Fund as a special fund in the State treasury. Authorizes the Department, subject to appropriation, to use the moneys in the Fund to carry out the purposes of the Microloan Program Act.

LRB096 18878 JDS 34265 b

FISCAL NOTE ACT
MAY APPLY

A BILL FOR

1 AN ACT concerning State government.

2 **Be it enacted by the People of the State of Illinois,**
3 **represented in the General Assembly:**

4 Section 1. Short title. This Act may be cited as the
5 Microloan Program Act.

6 Section 5. Definitions. For purposes of this Act:

7 "Department" means the Department of Commerce and Economic
8 Opportunity.

9 "Director" means the Director of Commerce and Economic
10 Opportunity.

11 "Intermediary" means (i) a private, non-profit entity;
12 (ii) a private, non-profit community development corporation;
13 (iii) a consortium of private, non-profit organizations or
14 non-profit community development corporations; or (iv) a
15 quasi-governmental economic development entity (such as a
16 planning and development district) if no application is
17 received from an eligible non-profit organization or the
18 Director determines that the needs of a region or geographic
19 area are not adequately served by an existing, eligible
20 non-profit organization that has submitted an application.

21 "Microloan" means a short-term, fixed rate loan of not more
22 than \$35,000, made by an intermediary to a startup, newly
23 established, or growing small business concern.

1 "Rural area" means any political subdivision or
2 unincorporated area (i) in a non-metropolitan county (as
3 defined by the Secretary of Agriculture) or its equivalent or
4 (ii) in a metropolitan county or its equivalent that has a
5 resident population of less than 20,000 if the Department of
6 Commerce and Economic Opportunity has determined such a
7 political subdivision or area to be rural.

8 "Economically distressed area", as used in Section 30,
9 means a county or unit of local government in which a small
10 business concern is located and in which, according to the most
11 recent data available from the Bureau of the Census, Department
12 of Commerce, not less than 40% of residents have an annual
13 income that is at or below the poverty level.

14 Section 10. Purposes. The purposes of the Microloan Program
15 are:

16 (1) to assist female, low-income, veteran, and
17 minority entrepreneurs and business owners and other
18 individuals possessing the capability to operate
19 successful business concerns;

20 (2) to assist small business concerns in those areas
21 suffering from a lack of credit due to economic downturns;

22 (3) to establish a microloan program to be administered
23 by the Department of Commerce and Economic Opportunity in
24 order to:

25 (A) make loans to eligible intermediaries to

1 enable those intermediaries to provide small-scale
2 loans, particularly loans in amounts averaging not
3 more than \$13,000, to startup, newly established, or
4 growing small business concerns for working capital or
5 the acquisition of materials, supplies, or equipment;

6 (B) make grants to eligible intermediaries that,
7 together with non-State matching funds, will enable
8 those intermediaries to provide intensive marketing,
9 management, and technical assistance to microloan
10 borrowers;

11 (C) make grants to eligible non-profit entities
12 that, together with non-State matching funds, will
13 enable those entities to provide intensive marketing,
14 management, and technical assistance to assist
15 low-income entrepreneurs and other low-income
16 individuals in obtaining private sector financing for
17 their businesses, with or without loan guarantees; and

18 (D) report to the Committee on State Government
19 Administration in the House of Representatives and the
20 State Government and Veterans Affairs Committee in the
21 Senate on the effectiveness of the microloan program.

22 Section 15. Microloan program established. A microloan
23 program is established in the Department of Commerce and
24 Economic Opportunity under which the Director of Commerce and
25 Economic Opportunity may:

1 (1) make direct loans to eligible intermediaries, as
2 provided under Section 25, for the purpose of making
3 short-term, fixed interest rate microloans to startup,
4 newly established, and growing small business concerns
5 under Section 40;

6 (2) in conjunction with these loans and subject to the
7 requirements of Section 30, make grants to these
8 intermediaries for the purpose of providing intensive
9 marketing, management, and technical assistance to small
10 business concerns that are borrowers under this Act; and

11 (3) subject to the requirements of Section 35 make
12 grants to non-profit entities for the purpose of providing
13 marketing, management, and technical assistance to
14 low-income individuals seeking to start or enlarge their
15 own businesses, if that assistance includes working with
16 the grant recipient to secure loans in amounts not to
17 exceed \$35,000 from private sector lending institutions,
18 with or without a loan guarantee from the non-profit
19 entity.

20 Section 20. Eligibility for participation. An intermediary
21 shall be eligible to receive loans and grants under paragraphs
22 (1) and (2) of Section 15 if it meets the definition of
23 intermediary in Section 5.

24 Section 25. Loans to intermediaries.

1 (a) As part of its application for a loan, each
2 intermediary shall submit a description to the Director of the
3 type of businesses to be assisted; the size and range of loans
4 to be made; the geographic area to be served and its economic,
5 poverty, and unemployment characteristics; the status of small
6 business concerns in the area to be served and an analysis of
7 their credit and technical assistance needs; any marketing,
8 management, and technical assistance to be provided in
9 connection with a loan made under this Act; the local economic
10 credit markets, including the costs associated with obtaining
11 credit locally; the qualifications of the applicant to carry
12 out the purpose of this Act; and any plan to involve other
13 technical assistance providers or private sector lenders in
14 assisting selected business concerns. In selecting
15 intermediaries to participate in the program established under
16 this Act, the Director shall give priority to those applicants
17 that provide loans in amounts averaging not more than \$13,000.

18 (b) As a condition of any loan made to an intermediary
19 under paragraph (2) of Section 15, the Department shall require
20 the intermediary to contribute not less than 15% of the loan
21 amount in cash from non-State sources.

22 (c) No loan shall be made to an intermediary under this Act
23 if the total amount outstanding and committed to that
24 intermediary (excluding outstanding grants) from the Business
25 Loan and Investment Fund would, as a result of that loan,
26 exceed \$750,000 in the first year of the intermediary's

1 participation in the program or \$3,500,000 in later years of
2 the intermediary's participation in the program.

3 (d) The Department shall, by regulation, require each
4 intermediary to establish a loan loss reserve fund, and to
5 maintain that reserve fund until all obligations owed to the
6 Department under this Act are repaid. Unless otherwise
7 authorized under this subsection (d), the Director shall
8 require the loan loss reserve fund of an intermediary to be
9 maintained at a level equal to 15% of the outstanding balance
10 of the notes receivable owed to the intermediary. After the
11 initial 5 years of an intermediary's participation in the
12 program, the Director shall, at the request of the
13 intermediary, conduct a review of the annual loss rate of the
14 intermediary. The Director may reduce the annual loan loss
15 reserve requirement of an intermediary to reflect the actual
16 average loan loss rate for the intermediary during the
17 preceding 5-year period, except that in no case shall the loan
18 loss reserve be reduced to less than 10% of the outstanding
19 balance of the notes receivable owed to the intermediary. The
20 Director may reduce the annual loan loss reserve requirement of
21 an intermediary only if the intermediary demonstrates to the
22 satisfaction of the Director that the average annual loss rate
23 for the intermediary during the preceding 5-year period is less
24 than 15%; and that no other factors exist that may impair the
25 ability of the intermediary to repay all obligations owed to
26 the Director under this Act.

1 (e) An intermediary may make a loan under this Act of more
2 than \$20,000 to a small business concern only if the small
3 business concern demonstrates that it is unable to obtain
4 credit elsewhere at comparable interest rates and that it has
5 good prospects for success. In no case shall an intermediary
6 make a loan under this Act of more than \$35,000, or have
7 outstanding or committed to any one borrower more than \$35,000.

8 (f) Loans made by the Department to an intermediary under
9 this Act shall be for a term of 10 years. Except as otherwise
10 provided in this subsection (f), loans made by the Department
11 to an intermediary under this Act shall bear an interest rate
12 equal to 1.25 percentage points below the rate determined by
13 the Secretary of the Treasury for obligations of the United
14 States with a period of maturity of 5 years, adjusted to the
15 nearest one-eighth of 1%. Loans made by the Department to an
16 intermediary that makes loans to small business concerns and
17 entrepreneurs averaging not more than \$7,500, shall bear an
18 interest rate that is 2 percentage points below the rate
19 determined by the Secretary of the Treasury for obligations of
20 the United States with a period of maturity of 5 years,
21 adjusted to the nearest one-eighth of 1%. The applicable rate
22 of interest under this subsection (f) shall be applied
23 retroactively for the first year of an intermediary's
24 participation in the program, based upon the actual lending
25 practices of the intermediary as determined by the Department
26 before the end of that year and be based in the second and

1 subsequent years of an intermediary's participation in the
2 program, upon the actual lending practices of the intermediary
3 during the term of the intermediary's participation in the
4 program. The interest rates prescribed in this subsection (f)
5 shall apply to all loans made to intermediaries under this Act.

6 (g) The Department shall not require repayment of interest
7 or principal of a loan made to an intermediary under this Act
8 during the first year of the loan.

9 (h) Except as provided in subsections (b) and (d) of this
10 Section 25, the Department shall not charge any fees or require
11 collateral other than an assignment of the notes receivable of
12 the microloans with respect to any loan made to an intermediary
13 under this Act.

14 Section 30. Marketing, management, and technical
15 assistance grants to intermediaries.

16 (a) Except as otherwise provided in subsections (b) and (c)
17 of this Section 30, each intermediary that receives a loan
18 under paragraph (1) of Section 15 shall be eligible to receive
19 a grant to provide marketing, management, and technical
20 assistance to small business concerns that are borrowers under
21 this Act. Except as provided in subsection (c) of this Section
22 30, each intermediary meeting the requirements of subsection
23 (b) of this Section 30 may receive a grant of not more than 25%
24 of the total outstanding balance of loans made to it under this
25 Act.

1 (b) As a condition of any grant made under subsection (a)
2 of this Section 30, except for a grant made to an intermediary
3 that provides not less than 50% of its loans to small business
4 concerns located in or owned by one or more residents of an
5 economically distressed area, the Department shall require the
6 intermediary to contribute an amount equal to 25% of the amount
7 of the grant, obtained solely from non-State sources. In
8 addition to cash or other direct funding, the contribution may
9 include indirect costs or in-kind contributions paid for under
10 non-State programs.

11 (c) In addition to grants made under subsection (a), each
12 intermediary shall be eligible to receive a grant equal to 5%
13 of the total outstanding balance of loans made to the
14 intermediary under this Act if (i) the intermediary provides
15 not less than 25% of its loans to small business concerns
16 located in or owned by one or more residents of an economically
17 distressed area or (ii) the intermediary has a portfolio of
18 loans made under this Act that averages not more than \$13,000
19 during the period of the intermediary's participation in the
20 program.

21 (d) A grant awarded under subsection (c) may be used to
22 provide marketing, management, and technical assistance to
23 small business concerns that are borrowers under this Act.

24 (e) The contribution requirements in subsection (b) of this
25 Section 30 do not apply to grants made under subsection (c).

26 (f) The eligibility for a grant described in subsections

1 (a) and (c) shall be determined separately for each loan-making
2 site or office of that intermediary.

3 (g) Each intermediary may expend an amount not to exceed
4 25% of the grant funds received under paragraph (2) of Section
5 15 to provide information and technical assistance to small
6 business concerns that are prospective borrowers under this
7 Act.

8 (h) An intermediary may expend not more than 25% of the
9 funds received under paragraph (2) of Section 15 to enter into
10 third party contracts for the provision of technical
11 assistance.

12 (i) The Department may accept any funds transferred to it
13 from the State, State agencies, and departments or agencies of
14 the Federal Government to make grants to participating
15 intermediaries and technical assistance providers under this
16 Section 30, for use in accordance with subsection (k) to
17 provide additional technical assistance and related services
18 to low-income individuals under subparagraph (C) of paragraph
19 (3) of Section 10 at the time the applicant initially applies
20 for assistance.

21 (j) In making grants under subsection (i), the Department
22 may select, from among participating intermediaries and
23 technical assistance providers described in subsection (i),
24 not more than 20 grantees in fiscal year 2011, not more than 25
25 grantees in fiscal year 2012, and not more than 30 grantees in
26 fiscal year 2013, each of whom may receive a grant under

1 subsection (i) in an amount not to exceed \$200,000 per year.

2 (k) Grants under subsection (i) are in addition to other
3 grants provided under this Act and shall not require the
4 contribution of matching amounts as a condition of eligibility;
5 and may be used by a grantee to pay or reimburse a portion of
6 child care and transportation costs of low-income individuals,
7 to the extent these costs are not otherwise paid by State block
8 grants under the Child Care Development Block Grant Act of 1990
9 (42 U.S.C. 9858 et seq.) or under part A of Title IV of the
10 Social Security Act (42 U.S.C. 601 et seq.); and for marketing,
11 management, and technical assistance to those individuals.

12 (l) Prior to accepting any transfer of funds under
13 subsection (i) from the State, a State agency, or a department
14 or agency of the federal government, the Department shall enter
15 into a Memorandum of Understanding with the State, State
16 agency, or department or agency of the federal government,
17 which shall specify the terms and conditions of the grants; and
18 provide for appropriate monitoring of expenditures by each
19 grantee and each recipient of assistance under subsection (i).

20 Section 35. Private sector borrowing technical assistance
21 grants.

22 (a) The Department may make not more than 55 grants
23 annually, each in an amount not to exceed \$200,000 for the
24 purposes specified in subparagraph (C) of paragraph (3) of
25 Section 10.

1 (b) As a condition of the grant, the Department shall
2 require the grant recipient to provide matching funds equal to
3 20% of the amount of the grant, obtained solely from non-State
4 sources. In addition to cash or other direct funding, the
5 matching funds may include indirect costs or in-kind
6 contributions paid for under non-State programs.

7 Section 40. Loans to small business concerns from eligible
8 intermediaries.

9 (a) An eligible intermediary shall make short-term, fixed
10 rate loans to startup, newly established, and growing small
11 business concerns from the funds made available to it under
12 paragraph (1) of Section 15 for working capital and the
13 acquisition of materials, supplies, furniture, fixtures, and
14 equipment.

15 (b) To the extent practicable, each intermediary that
16 operates a microloan program under this Act shall maintain a
17 microloan portfolio with an average loan size of not more than
18 \$13,000.

19 (c) The Department shall not review individual microloans
20 made by intermediaries prior to approval.

21 (d) In addition to other eligible small businesses
22 concerns, borrowers under any program under this Act may
23 include individuals who will use the loan proceeds to establish
24 for-profit or non-profit child care establishments or
25 businesses providing for-profit transportation services.

1 Section 45. Program funding for microloans.

2 (a) Under the program authorized by this Act, the
3 Department may fund, on a competitive basis, not more than 300
4 intermediaries.

5 (b) Subject to the availability of appropriations, of the
6 total amount of new loan funds made available for award under
7 this Act in each fiscal year, the Department shall make
8 available for award an amount equal to the sum appropriated by
9 the General Assembly for that purpose.

10 Section 50. Equitable distribution of intermediaries. In
11 approving intermediaries and providing funding to
12 intermediaries under this Act, the Department shall select and
13 provide funding to intermediaries as will ensure appropriate
14 availability of loans for small businesses in all industries
15 located throughout the State, particularly those located in
16 urban and in rural areas.

17 Section 55. Grants for management, marketing, technical
18 assistance, and related services.

19 (a) The Department may procure technical assistance for
20 intermediaries participating in the Microloan Program to
21 ensure that those intermediaries have the knowledge, skills,
22 and understanding of microlending practices necessary to
23 operate successful microloan programs.

1 (b) The General Assembly may appropriate up to 7% of the
2 balance in the Business Loan and Investment Fund to the
3 Department for the specific purpose of providing one or more
4 technical assistance grants to experienced microlending
5 organizations that have demonstrated experience in providing
6 training support for microenterprise development and financing
7 to achieve the purposes set forth in Section 10.

8 Section 60. Report to General Assembly. On November 1,
9 2012, the Department shall submit to the General Assembly a
10 report, including the Department's evaluation of the
11 effectiveness of the microloan program and the following:

12 (1) the numbers and locations of the intermediaries
13 funded to conduct microloan programs;

14 (2) the amounts of each loan and each grant to
15 intermediaries;

16 (3) a description of the matching contributions of each
17 intermediary;

18 (4) the numbers and amounts of microloans made by the
19 intermediaries to small business concern borrowers;

20 (5) the repayment history of each intermediary;

21 (6) a description of the loan portfolio of each
22 intermediary including the extent to which it provides
23 microloans to small business concerns in rural areas; and

24 (7) any recommendations for legislative changes that
25 would improve program operations.

1 Section 65. Business Loan and Investment Fund. The Business
2 Loan and Investment Fund is created as a special fund in the
3 State treasury to accept appropriations, grants, gifts, and
4 other donations made to fund the Microloan Program created by
5 this Act. Moneys in the Fund may, subject to appropriation, be
6 used by the Department to carry out the requirements of this
7 Act.

8 Section 70. The State Finance Act is amended by adding
9 Section 5.755 as follows:

10 (30 ILCS 105/5.755 new)

11 Sec. 5.755. The Business Loan and Investment Fund.