



TO: Members of the Authority
FROM: Caren S. Franzini, Chief Executive Officer
DATE: September 6, 2011
SUBJECT: Main Street Disaster Relief Program

Request

This memo is to request approval to modify the Authority’s Main Street Line of Credit Guarantee Program to include a temporary provision that will provide enhanced financial assistance to those New Jersey businesses impacted by Hurricane Irene that need to rebuild, replace, fix, and/or clean their damaged business assets. The term of this temporary provision will commence on the date of this board approval and end on December 31, 2011. The Board is also requested to delegate to the CEO the discretion to extend the deadline beyond December 31, 2011 to address business demand as necessary.

Background

On Saturday, August 27 through Sunday August 28, 2011, the State of New Jersey experienced Hurricane Irene, which left a path of destruction and resulted in a statewide disaster declaration. To support the recovery of New Jersey’s businesses and protect the overall economic interests of New Jersey, Governor Christie and Lt. Governor Guadagno announced a series of business assistance services last week through the collective efforts of the Partnership for Action, which includes the Business Action Center (BAC), the EDA and Choose New Jersey, in addition to the Departments of Banking and Insurance, Community Affairs and Labor and Workforce Development. The Board’s action today on the Main Street program supports these comprehensive efforts.

The clean up process in the aftermath of Irene has commenced. It is anticipated that many New Jersey based businesses have been impacted in various degrees and will not be in a position to resume normal business levels until the damage caused by the hurricane has been resolved. The typical process by which business owners fix or replace their damaged assets and return to business is having insurance providers assess the extent of the damage, filing an insurance claim, and waiting for the receipt of insurance proceeds to finance the damage repair costs. To commence repairs as soon as possible, some business owners may finance all or a portion of the costs from internal cash sources as the time to receive insurance proceeds may be prolonged. Once received, the insurance proceeds will reimburse the owners for the amount of capital outlaid and/or represent the cash needed to complete the repairs. Unfortunately, all business owners may not be in a position to make either a meaningful or any equity contribution toward damage repair costs reflecting tight cash positions due to the already depressed economy. As such, the Authority proposes that the Main Street Line of Credit Guarantee Program be modified to include a temporary provision for businesses which have been impacted by Hurricane Irene and are in need of immediate cash to fund damage repair costs.

The Main Street Line of Credit Guarantee Program currently provides a line of credit guarantee for Preferred Lenders. Preferred Lenders of the Authority include Bank of America, Capital One Bank, Citizens Bank of Pennsylvania, Columbia Bank, Cornerstone Bank, Peapack-Gladstone Bank, PNC Bank, Roma Savings Bank, Sovereign Bank, Sun National Bank, Susquehanna Bank, TD Bank, The Bank, The Provident Bank, and Valley National Bank. The program may be used when a Preferred Lender requires additional credit enhancement on a line of credit.

The program is designed to offer an expedited approval under Delegated Authority. A decision is made within five business days from the time a complete underwriting package is received. If a project does not meet the criteria for Delegated Authority, it may be submitted to the Board for approval. A commitment letter is issued within two business days after Delegated approval. Eligibility under the program is comprised of the following:

1. Maximum Loan to Value of 100%.
2. Global Debt Service Coverage Ratio of 1.10x.
3. Start-up companies (less than two years of operations) are not eligible.
4. Minimum credit score of at least 680 for one of the guarantors.
5. Applicant must be in good standing with the Preferred Lender.

The amount of the guarantee is limited to the lesser of \$250,000 or 50% the line of credit outstandings at the time of default. The Authority's guarantee may be up to two years and the interest rate on the credit line is determined by the bank. The fees for a line of credit guarantee is equal to 0.5% of Authority exposure times the length of guarantee in years. An application fee of \$1,000, commitment fee of \$750, and tax clearance fee of \$75 also applies.

Proposed Changes

To allow partner banks to extend either a new credit line, a carve out provision to an existing credit line, or an increase to an existing credit line of which the new proceeds will be used to fund damage repair costs, the Authority is requesting the following changes:

1. Allow both Preferred Lender and Participating Lenders ("Lending Partners") to use this loan product. Participating lenders include JPMorgan Chase, Cape Bank, Lakeland Bank, Spencer Savings Bank, Capital Bank, M&T Bank, Sturdy Savings Bank, New Millennium Bank, Central Jersey Bank, Newfield National Bank, Citibank-FSB, Northfield Bank, NJM Bank, Colonial Bank-FSB, OceanFirst Bank, Parke Bank, TriState Capital Bank, Continental Bank, Two River Community Bank, Unity Bank, HSBC Bank, UPS Capital Business Credit, Hilltop Community Bank, Roebing Bank, IDB Bank, Wells Fargo, Investors Savings Bank, Royal Bank of Pennsylvania, and Republic Bank. Note that the use of this product will only be for new line of credit exposure earmarked to finance damage repair costs caused by Hurricane Irene. The new line exposure may be in the form of a new credit line, a carve out to an existing credit line, or an increased exposure on an existing credit line.
2. Increase the guarantee from \$250,000 to \$500,000. As such, line of credit guarantees will be limited to the lesser of \$500,000 or 50% the line of credit outstanding at the time of default, subject to insurance policy limits. The Authority's guarantee will only be applied to new line of credit exposure in which the advance proceeds will be used to cover damage repair costs.

3. The Authority's guarantee in respect to collateral position will be pari-passu with the Lending Partner. Loan to value will also be limited to 100% and may include a blanket lien on all business assets. Collateral under this provision must include the Lending Partner being named as "Lender Loss Payee" on the insurance policy to which the applicant is making a claim. The maximum loan to value of 100% will include the limits within the insurance policy that cover the specific claim. The limits within the insurance policy must be equal to the amount of the line earmarked to cover damage costs. For instance, if the Lending Partner provides a new \$250,000 line of credit of which the proceeds will cover damage costs then the limits within the insurance policy that will cover the damage claim must be \$250,000. If the Lending Partner approves a carve out of \$250,000 in an existing \$1 million line of credit of which the carve out proceeds will cover damage costs then the limits within the insurance policy that will cover the damage claim must be \$250,000. Finally, if a Lending Partner increases an existing line from \$250,000 to \$500,000 with the increased availability earmarked to cover damage costs then the limits within the insurance policy that will cover the damage claim must be \$250,000. In the event a business does not have an insurance policy to cover damage repair costs, then application for financing may be made under the Authority's traditional Main Street Business Assistance Program.
4. The initial term of the guarantee offered to Lending Partners will be up to 12 months. Delegated authority is requested to provide extensions beyond the initial term with an aggregate guarantee period not to exceed 24 months. Such extensions will be granted on a case by case basis at the sole discretion of the Authority. The actual term of the guarantee will be the lesser of the guarantee option chosen (plus extensions if applicable) or the date on which the insurance proceeds have been received by the Lending Partner and the line advances associated with damage repairs have been repaid.
5. All fees (application, commitment, guarantee, and tax clearance) will be waived.

All other eligibility criteria under the existing program will remain the same.

Recommendation:

Based on the Authority's desire to support the State's efforts in assisting those businesses negatively affected by Hurricane Irene, approval to temporarily modify the Main Street Line of Credit Guarantee Program is requested, as well as delegation to the CEO to extend the program as warranted, delegation to staff to approve extensions to individual terms not to exceed 24 months, and authorization to promulgate the attached rule proposal to implement the program in the NJ Register, subject to review and approval of the Division of Law, Office of the Attorney General.



Prepared by: D. Lawyer

DRAFT

OTHER AGENCIES

NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

Main Street Business Assistance Program

Proposed Amendments: N.J.A.C. 19:31-6.2 and 6.3

Authorized By: New Jersey Economic Development Authority, Caren S. Franzini, Chief Executive Officer.

Authority: P.L. 2008, c.117 and N.J.S.A. 34:1B-1 et seq.

Calendar Reference: See Summary below for explanation of exception to calendar requirement.

Proposal Number: PRN 2011-

Submit written comments by December 16, 2011:

Maureen Hassett, SVP Governance & Communications
New Jersey Economic Development Authority
PO Box 990
Trenton, NJ 08625-0990

The agency proposal follows:

Summary

The New Jersey Economic Development (“EDA” or “Authority”) is proposing amendments to the rules implementing the Main Street Business Assistance Program to establish a temporary Disaster Relief Program to offer benefits of the guarantee currently offered on lines of credit to assist business impacted by Hurricane Irene and in need of immediate cash to fund damage repair costs.

Specifically, the proposed amendment, at N.J.A.C. 19:31-6.2(a)3, would provide for a line of credit guarantee which shall not exceed \$500,000 which applicants may apply for until December 31, 2011. The proposed amendment, at N.J.A.C. 19:31-6.2(d), would establish a term of up to one year following approval by the Authority for line of credit guarantees under the Disaster Relief Program. Finally, the proposed amendment, at N.J.A.C. 19:31-6.3(a)3, would require that only storm impacted businesses which carried insurance coverage effective as of August 26, 2011 would be eligible for the Disaster Relief Program.

As the Authority has provided a 60-day comment period in this notice proposal, this notice is excepted from the rulemaking calendar requirement, pursuant to N.J.A.C. 1:30-3.3(a)5.

Social Impact

The proposed amendments will have a positive social impact by providing immediate assistance to support businesses impacted by Hurricane Irene and needing to rebuild, replace, fix, and/or clean their damage business assets.

Economic Impact

The proposed amendments are intended to have a positive economic impact by enabling New Jersey-based businesses that have been impacted in the aftermath of Hurricane Irene to more quickly resume normal business levels. The typical process by which business owners fix or replace their damaged assets and return to business is having the insurance providers assess the extent of the damage, the filing of an insurance claim, and waiting for the receipt of insurance proceeds to finance the damage repair costs. To commence repairs as soon as possible, some business owners may finance all or a portion of the costs from internal cash sources as the time to receive insurance proceeds may be weeks or months. Once received, the insurance proceeds will reimburse the owners for the amount of capital outlaid and/or represent the cash needed to complete the repairs. Unfortunately, all business owners may not be in a position to make either a meaningful or any equity contribution toward damage repair costs reflecting tight cash positions due to the already depressed economy. The line of credit guarantee under the Disaster Relief Program will provide immediate cash to fund damage repair costs.

Federal Standards Statement

A Federal standards analysis is not required because the proposed amendments are not subject to any Federal requirements or standards.

Jobs Impact

The proposed amendments may result in qualifying businesses retaining an indeterminate number of existing jobs and/or returning existing employees to work following repair of storm damages.

Agriculture Industry Impact

The proposed amendments, through access to funds supporting hurricane damage repair costs, may have a positive impact on the agriculture industry of the State of New Jersey.

Regulatory Flexibility Analysis

The proposed amendments do not impose reporting, recordkeeping, or other compliance requirements on small business, as defined in the Regulatory Flexibility Act, N.J.S.A. 52:14B-16 et seq. The proposed amendments are intended to confer assistance upon qualifying small businesses, among other businesses, in order to recover from the impacts of Hurricane Irene. The EDA's regular application and compliance requirements will apply to all applicants regardless of size and, therefore, the proposed amendments do not allow for exceptions based on business size.

Smart Growth Impact

The proposed amendments, which provide for disaster relief assistance to certain qualifying businesses impacted by Hurricane Irene, will not achieve Smart Growth or implement the State Development and Redevelopment Plan.

Housing Affordability Impact

The proposed amendments will not result in an increase of housing units, including multi-family rental housing and for sale housing. The proposed amendments provide for disaster relief assistance to certain qualifying businesses impacted by Hurricane Irene.

Smart Growth Development Impact

The proposed amendments will not affect new construction within Planning Areas 1 or 2, or within designated centers, under the State Development and Redevelopment Plan. The proposed amendments provide for disaster relief assistance to qualifying businesses impacted by Hurricane Irene.

Full text of the proposed amendments follows (additions indicated in boldface **thus**; deletions indicated in brackets [thus]):

CHAPTER 31. NEW JERSEY ECONOMIC DEVELOPMENT AUTHORITY

SUBCHAPTER 6. MAIN STREET BUSINESS ASSISTANCE PROGRAM

19:31-6.2 Terms of financial assistance

(a) Under the Main Street Business Assistance Program, the Authority may provide direct loan, loan participation and/or guarantee products and line of credit guarantee products.

1. – 2. (No change.)

3. For the line of credit product, the maximum amount will be \$250,000, not to exceed 50 percent of the total transaction. **For the Disaster Relief Program, the maximum amount for the line of credit guarantee will be \$500,000 which applicants may apply for until December 31, 2011.**

(b) – (c) (No change.)

(d) For purposes of (a)1 and 2 above, the term shall not exceed five years; and for (a)3 above, the term shall be up to two years based on the term of bank line of credit. **For the disaster Relief Program, the term shall be up to one year following approval by the Authority.**

19:31-6.3 Eligibility criteria

(a) Under the Main Street Business Assistance Program, preference for assistance will be given to:

1. A business which has operated continuously for at least the two years preceding the filing of an application; [and]

2. A project which may:

i. Maintain employment;

ii. Create or maintain tax ratables;

iii. Be located in an economically distressed area; or

iv. Represent an important economic sector of the State[.] ; **and**

3. For the Disaster Relief Program, line of credit guarantees will be extended to businesses impacted by Hurricane Irene, which carried insurance coverage effective as of August 26, 2011.