Featured in this issue is an information-packed article about credit scoring written by Ron Feldman, a senior financial specialist in the Special Studies group of the Minneapolis Reserve Bank's Banking Supervision Department. In "Credit scoring and small business loans," Feldman explains the effect the credit-scoring process may have on Ninth District financial institutions.
Credit scoring and small business loans

Credit scoring is the process of assigning a single quantitative measure, or score, to a potential borrower that reflects the borrower's relative chance of going into delinquency or default.

April 1, 1997

Author

Ron J. Feldman
Senior Financial Specialist

Personal contact between small business owners and their banks is at the heart of community commerce in towns and rural areas throughout the Ninth Federal Reserve District. The connection between community banks and small business is not merely the result of the "everyone-knows-everyone" environment that often characterizes nonmetropolitan life. Many bankers will not extend credit unless they have in-depth knowledge of the plans and operations of the prospective small business borrower. However, what if knowledge of local conditions and face-to-face contact with the borrower is unnecessary for making sound loans? Indeed, what if gathering such information actually hurts the competitive position of the community bank? The recent but growing ability of lenders to underwrite small business loans via a highly automated and cost-effective process known as credit scoring moves such questions from the hypothetical to the practical.

The move to credit scoring could have broad implications for small banks, small businesses and small towns despite the seemingly technical or arcane nature of this change. Credit scoring should greatly reduce the time and paper needed to apply for—and monitor—a small business loan. These systems should also decrease the costs of borrowing for small businesses with higher credit quality, and conversely, increase the costs for borrowers with lower credit quality, while increasing the total amount of funds available for small business lending. In addition, credit scoring should put downward pressure on the profits that community banks currently earn on small business loans, although it may open up new areas of profitable business. Finally, credit scoring could alter the environment in which community commerce takes place. Small business lending is often characterized by intense, personal contact between the lender and borrower. Credit scoring makes it much more likely that this relationship will become like the impersonal tie between consumers and their credit card issuers.

This article provides an in-depth look at credit scoring, detailing what it is, how it is used to evaluate potential small business loans, the implications of credit scoring for small business borrowers as well as the implications of credit scoring small business borrowers for community banks.

What is credit scoring?

Credit scoring is the process of assigning a single quantitative measure, or score, to a potential borrower that reflects the borrower's relative chance of going into delinquency or default.

These scores have been used for decades in the underwriting of consumer loans, such as credit card and auto loans.

There are two main types of credit scores: the bureau or credit history score and the application score.

The bureau or credit history score is based solely on information available from a credit bureau. In developing the bureau scoring system, analysts identify those characteristics of borrowers that best predict whether they will repay their loans fully and on time. The developer then statistically assigns each of the characteristics a numerical weight so that the credit system correctly measures the relative importance of a given characteristic in accurately forecasting repayment. For example, the characteristic "never having been delinquent" will receive a large weight if it is an important predictor of not being delinquent in the future. The outcome of these statistical procedures is a "score card" on which the characteristics of the borrower are noted and the score tallied. Fair, Isaac and Co.,
San Rafael, Calif., in conjunction with each of the three major credit bureaus, is a leading provider of bureau scores. Their bureau scores range from about 300 to about 900. The higher the score, the more likely the loan will perform according to the expectations of the lender.

The second type of score, the application score, incorporates information on the loan and borrower beyond that collected by a credit bureau. A mortgage score, for example, could be influenced by the amount of the loan relative to the value of the property being financed.

Credit-scoring systems do not approve or reject a loan application. Rather, the underwriter must decide how he or she will incorporate the credit score into the loan review. Freddie Mac, one of the two enormous government-sponsored purchasers of mortgages in the United States, has suggested that lenders subject mortgage applicants to three levels of scrutiny based on the bureau score of the applicant. Freddie Mac suggests that those applicants with a Fair, Isaac score of more than 660 should receive a limited review by human underwriters, those with scores between 660 and 620 should receive a full-scale human underwriting while those with scores under 620 should be approved only with great caution. Ultimately, each lender must set its own cut-off scores based on its risk preferences.

The recent but growing ability of lenders to underwrite small business loans via credit scoring moves a string of important questions on loan administration from the hypothetical to the practical.

The popularity of credit-scoring systems results from the advantages that they offer the borrower and lender. Credit scoring has allowed consumer lenders to:

- reduce greatly the cost of underwriting loans for borrowers whose score indicates that a full-scale human underwriting is unnecessary because they will almost surely be accepted or rejected.
- increase the speed at which they can provide a loan decision and the number of loans that a lender can underwrite.
- underwrite and monitor loans without meeting the borrower. By using bureau scores, a lender can directly market its loans to potential borrowers who have a score above a certain cutoff. Credit scoring thus makes preapproved credit card solicitation possible. This manipulation of information allows lenders to tailor their products to a target audience. Lenders can also use scores to monitor the credit quality of their borrowers after they have accepted credit.
- predict their expected losses better. Credit-scoring systems apply underwriting standards consistently and provide lenders with estimates of future loan performance for borrowers of a given score. Credit scoring should allow lenders to adjust interest rates so they are compensated for the risks they incur. In contrast, a lender may decide not to make a loan at all if it is unsure of the expected loss associated with it. Credit scoring thus makes risk-based pricing a viable alternative to credit rationing.

Credit scoring small business loans

Credit scoring historically had been limited to the underwriting of consumer loans. In contrast, lenders believed that they had to assess the ability of the small business to generate revenue to determine its repayment prospects. Such a comprehensive business review is not amenable to credit-scoring systems. More recently, analysts determined that the bureau score of the owner of the small business is highly predictive of the loan repayment prospects of the business. The credit score of the business principal can be augmented with very basic information on the nature of the business (e.g., is it an entertainment provider or a manufacturer?) and data from a business credit bureau, such as Dun & Bradstreet, to produce one type of credit-scoring system for small business loans.

The most prominent small business loan scoring system was developed by Fair, Isaac and the Robert Morris Association (RMA). It provides lenders with a number of scorecards whereby they can choose the system most appropriate for the characteristics of the loans they are offering. For example, scorecards have been designed for different sized loans and for businesses that do not provide lenders with financial statements. Fair, Isaac reports that 250 banks use its small business scoring system, while 25 of the top 30 banks with the most outstanding small business loans credit score their own small business loans. Several extremely large banks, including Wells Fargo, Citibank, and Bank of America, also have developed their own scoring systems. Wells Fargo alone issued $1.4 billion of preapproved lines of credit to small businesses in 1995.

Implications of credit scoring for small business borrowers

Credit scoring will alter small business lending in three areas: the interaction between borrowers and lenders, the pricing of loans and the availability of credit. More generally, all of the characteristics that credit scoring has brought to consumer loans will now be available for small business loans.

Borrower-lender interaction

Traditionally, a small business owner wanting a loan had to meet with a loan officer of a local bank in person and submit an application, including financial statements, business plans and a variety of other records. It could take many days for the loan officer to review the documents. And not just data were examined during the loan review; the "character" of the borrower could play a
significant role in the decision. After the loan was made, the bank required that the small business owner regularly submit updated financial statements. Credit scoring eliminates the need for this level of interaction. In fact, by using a credit-scoring system, a lender with no physical presence in a community can lend money to small businesses via a direct solicitation without ever seeing a business plan or financial statements. Once approved, the borrowers may not have to provide their lenders with updated financial statements. If a small business owner comes to the branch of a bank that credit scores its loans, his or her application can be approved very quickly. The credit-scored small business loan would have much more in common with the credit card loan obtained by the business owner in terms of borrower-lender interaction than the traditionally underwritten small business loan.

Loan pricing

The price of small business loans will decline for higher-credit-quality borrowers under a credit-scoring regime because these borrowers no longer have to bear the cost of a full human underwriting. Moreover, these high-quality borrowers will now have access to a greater number of lenders. Lenders from across the country will be able to reach out to the small business via direct marketing. This increase in competition should also reduce the costs of funds to small businesses. Finally, some businesses that had previously been thought to be high risk under a traditional underwriting system may be classified as lower risk under a credit-scoring system. This reclassification would encourage lenders to reduce costs for such small business borrowers.

Not all borrowers, however, will see their loan costs decrease because of credit scoring. A borrower whose credit score indicates that a full-scale human review is required may actually face higher costs. Previously, the fixed costs of human underwriting were spread among all the applicants. Under credit scoring, a significant percentage of the loans will receive a limited human review, thus forcing those reduced numbers of loans that still require a full-scale human review to bear the bulk of the fixed costs of traditional underwriting. Furthermore, and as noted above, credit scoring makes pricing according to risk much more feasible. The small-business borrowers who were being undercharged based on the traditional underwriting regime relative to the risk of default or delinquency they posed will now face higher costs for credit. Using its credit-scoring system, Wells Fargo, for example, has recently been charging its higher-risk borrowers the prime rate (about 8.5 percent as of the end of March 1997) plus an additional 8.75 percentage points.

Availability of credit for small business

Better information about the repayment prospects of a small business applicant makes it more likely that a lender will price the loan according to its expected risk instead of denying the loan out of fear of charging too little and losing money. This prospect should increase the availability of credit to small businesses.

More important is the indirect ability of credit scoring to increase the size of the pool of funds small businesses can tap. Currently, it is very difficult for a lender that has made small business loans to sell the loans to investors. In contrast, lenders routinely sell their mortgages and, to a lesser extent, their credit card loans. The difference between the two situations is that a large market exists for securities backed by a group of mortgages, credit cards or other consumer loans. In this market, the investor will buy a security whose principal and interest payments are actually supported by payments made on the underlying mortgages or credit card loans. The issuer of these asset-backed securities will use the funds of investors to make additional mortgage or credit card loans. The process of converting a pool of loans into a security that investors are willing to purchase is aptly called securitization.

There is a very small market for securitized small business loans for two reasons. First, there is not much data on how these loans perform over time. And second, small business loans—even those made by the same bank—may vary in their underwriting, payment terms and loan structure. Both these factors make it very difficult for an investor who wants to buy a security backed by a pool of these loans to determine the cash flows that such a pool will produce. Investors are unlikely to buy securities backed by an uncertain cash flow under conditions amenable to the firm that originated the loans. The investors may ask the lender, for example, to sell the loans for less than what the lender thinks they are worth. Credit scoring small business loans addresses both these problems. The highly computerized scoring systems make it easy to collect data on the performance of loans over time. To use a credit-scoring system cost-effectively, a lender must also make its small business loans fairly homogenous. Otherwise, the system will not be able to process many loans in a short period. Using a scoring system to rate heterogeneous loans would be like using the same machine to process many differently shaped and sized widgets. In total, the credit-scored small business loans should be much easier to securitize.

A vast pool of funds opens up to small businesses once lenders can securitize small business loans. Indeed, investors throughout the world who currently invest in asset-backed securities would be able to invest in small business loans.

Implications of credit scoring small business borrowers for community banks

Credit scoring should increase the competition for lending to small businesses in several ways. Large banks are already applying direct distribution techniques to lend to small businesses that previously borrowed from local institutions. More generally, a firm capable of raising funds and buying a scoring system can more easily enter the small business lending market. Furthermore, lenders making use of credit scoring can provide credit to high-quality borrowers at a lower rate than can banks that rely on the traditional underwriting
Finally, the securitization of small business loans would greatly increase the number of potential investors in these loans. All these factors should put competitive pressure on the prices that community banks can charge small businesses. Ultimately, this pressure may reduce the profits that many community banks earn on small business loans.

However, some community banks should be able to exploit profitable opportunities presented by credit scoring. For example, a bank could focus its efforts on lending to those small business borrowers who want the personal contact that the credit-scoring system does not provide. In addition, some small business borrowers will not want—or may not qualify for—the standard loan that everyone else is getting. Community banks can try to cater to these nonconforming borrowers who will likely have to pay more for their nonstandard borrowings. Finally, a community bank can try to increase its lending via a credit-scoring system to make up for the lower returns it earns per loan. However, the relatively limited number of businesses that community banks serve and their inability to match the cost efficiencies and investment capabilities of larger banks going after the same markets limits the opportunity presented by these possibilities.

**Conclusion: Changes in community commerce?**

Predicting the future of financial services is a low-success venture. Given that caveat, it does seem more likely than not that credit scoring will significantly change the borrowing opportunities for small businesses. Moreover, credit scoring small business loans seems to pose a distinct threat to the profitability of some community banks. The greatest unknown, however, is how the changes wrought by credit scoring will alter the nature of community commerce in rural areas and small towns. Will community life be modified significantly by the severing of the personal relationship between local lenders and local small businesses? Will the benefits that accrue to some borrowers who have greater access to cheaper funds offset the costs to community life and local banks?

There are no obvious answers to such questions. In fact, it would seem unlikely that a technical change like credit scoring could produce serious changes to community commerce. Yet it is clear that changes in technology can alter the processing of information and the distribution of products and that such changes have already affected commerce in rural areas and small towns. One need not look further than the effect of the Wal-Mart chain of discount stores, with its sophisticated distribution and information management systems, on small communities. Credit scoring is probably best understood as another of the technological advances that will provide benefits—and costs—to nonmetropolitan communities.

*Ron Feldman is a senior financial specialist in the Special Studies Unit of the Minneapolis Reserve Bank's Banking Supervision Department. He studies trends affecting financial institutions and analyzes banking and supervision policies.*
Lending to small firms and small farms

A snapshot of data on the distribution of business loans to farms and firms by the size of the loan.

April 1, 1997

AUTHOR

Ron J. Feldman
Senior Financial Specialist

Bank regulators have collected data on the amount of small business loans made to firms and farms since 1993. These data indirectly provide a valuable source of information on these types of lending because borrower and loan size are highly correlated. The data indicate that business loans to small firms and farms make an important contribution to total lending activity in the Ninth District and play a dominant role in terms of business lending. Moreover, small business and farm lending is a larger percentage of business lending in the Ninth District than in the United States as a whole. The level of lending to small firms and small farms has remained fairly constant over the last several years.

A substantial portion, about 42 percent, of all business loans made by banks in the Ninth District as of June 1996 was made to small firms and farms (assuming all business loans under $250,000 are small firm and farm loans). Business loans include loans for farm production, commercial and industrial loans and loans secured by farm and nonfarm real estate. A significant majority of all business lending by community banks in the District, 71 percent, goes to small firms and small farms. A community bank is defined here, imperfectly, as any District bank that is not affiliated with the FirstBank System or Norwest Corporation. Business loans under $250,000 also make up a significant amount of all loans made in the District: 31 percent for community banks and 22 percent for all banks.

Tables 1 and 2 provide additional detail on the distribution of business loans to farms and firms by the size of the loan.

Table 1. Distribution of Business Loans to Farms by Size of Loan (in thousands of dollars) *

<table>
<thead>
<tr>
<th></th>
<th>Under $100</th>
<th>$100 to $250</th>
<th>$250 to $500</th>
<th>Over $500</th>
</tr>
</thead>
<tbody>
<tr>
<td>All 9th District Banks</td>
<td>71.4%</td>
<td>15.3%</td>
<td>7.7%</td>
<td>5.6%</td>
</tr>
<tr>
<td>9th District Community Banks</td>
<td>75.5%</td>
<td>14.4%</td>
<td>6.9%</td>
<td>3.3%</td>
</tr>
<tr>
<td>All U.S. Banks</td>
<td>55.9%</td>
<td>15.2%</td>
<td>10.8%</td>
<td>18.2%</td>
</tr>
</tbody>
</table>

Table 2. Distribution of Business Loans to Firms by Size of Loan (in thousands of dollars) *

<table>
<thead>
<tr>
<th></th>
<th>Under $100</th>
<th>$100 to $250</th>
<th>$250 to $1,000</th>
<th>Over $1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>All 9th District Banks</td>
<td>28.4%</td>
<td>11.4%</td>
<td>23.3%</td>
<td>36.9%</td>
</tr>
<tr>
<td>9th District Community Banks</td>
<td>45.1%</td>
<td>14.8%</td>
<td>25.7%</td>
<td>14.4%</td>
</tr>
<tr>
<td>All U.S. Banks</td>
<td>11.9%</td>
<td>7.7%</td>
<td>18.4%</td>
<td>62.0%</td>
</tr>
</tbody>
</table>
*Information as of June 1996.
The Native American Housing Assistance and Self-Determination Act of 1996, a new law that will transform the way housing is provided in Indian Country, is scheduled to take effect October 1, 1997, and tribes are already planning for their not-too-distant futures. About 1,000 tribal leaders and Indian housing professionals gathered at the Second Annual Native American Homeownership Summit in Scottsdale, Ariz., in December 1996. The summit, sponsored by the U.S. Department of Housing and Urban Development (HUD) and other members of the National Partners in Homeownership initiative, focused on preparing tribes and their housing partners for implementing the act.

The act replaces older, more categorical programs with a single block grant to federally recognized tribes for housing activities. Under the new law, tribes—not the federal government—will decide how to allocate resources among homeownership, existing housing, demolition, drug elimination, safety and security and other housing activities.

Under the new law, tribes can develop a long-term housing strategy that will allow them to complete planned large-scale projects quickly and begin addressing housing needs immediately. Furthermore, tribes can now develop housing for college students and the elderly as well as facilities for troubled youths, all of which had not been permitted under the previous laws.

Tribes must develop one- and five-year comprehensive housing plans to qualify for the block grant. Each tribe's plan must include its housing objectives, its community's needs and resources and the activities proposed to achieve its goals.

Activities eligible for funding under the new act include developing and managing affordable rental and homeownership units, crime prevention and safety, and housing counseling and other support services. Also encouraged under this new act are developing public-private partnerships and leveraging limited federal resources. In addition, training and technical assistance funds will be available to the tribes.

HUD's Office of Native American Programs will annually review a tribe's comprehensive plans and required yearly reports. Once approved, the tribe will be included in an annual formula allocation. At HUD's request, the new law requires that the allocation formula be developed through a cooperative effort between HUD and tribal and Indian housing leaders.

A committee composed of HUD and tribal and Indian housing leaders will participate in a negotiated rule-making process and help set funding allocations to tribes. The committee's recommendations will be presented to HUD Secretary Andrew Cuomo and made available for public comment this summer.

For more information, contact HUD's Office of Native American Programs at (303) 675-1600 or visit its Web page at www.hud.gov/offices/pih/h/codetalk/

Jacqueline Kruszek is program analyst for Dominic Nessi, deputy assistant secretary, at HUD's National Office of Native American Programs.
Regulators approve CRA strategic plans

The Federal Reserve Board has announced its approval of the first bank strategic plans submitted under the newly revised Community Reinvestment Act regulations.

April 1, 1997

The Federal Reserve Board announced in late December that it approved the Community Reinvestment Act (CRA) "strategic plan" of The Northern Trust Co., Chicago. In a similar action, the Federal Deposit Insurance Corporation (FDIC) approved the strategic plan submitted by the $149 million Swiss Avenue State Bank, Dallas.

These actions marked the first approvals of strategic plans by federal banking agencies under the newly revised CRA regulation. The option to submit a strategic CRA plan became available in January 1996, following a major overhaul of CRA regulations by the federal bank supervisory agencies.

This option allows an institution to develop a plan with community input, detailing how it proposes to meet its CRA obligations. The guidelines call for an institution to seek suggestions informally from the public while developing the plan. Once developed, the institution must publish notice and solicit written public comments for at least 30 days. After the comment period, the institution is then to submit the plan to its federal regulator for review and approval.

Northern Trust submitted its plan to the Federal Reserve Bank of Chicago on November 1, 1996, at which time it was forwarded to the Board of Governors for simultaneous review. The Board then circulated the plan to the other federal banking agencies for their views, a move designed to ensure consistency under the new CRA regulation.

A copy of Northern Trust's strategic plan can be obtained by writing to Publications, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, DC 20551. Swiss Avenue's plan can be obtained from the FDIC Public Information Center, 801 17th St., N.W., Room 100, Washington, DC 20434, (800) 276-6003 or (202) 416-6940.
Resources

For free copies of recent issues of Community Dividend and other community development articles and newsletters from other Federal Reserve Banks, contact Community Affairs at the Federal Reserve Bank of Minneapolis at (612) 340-2277.

Winter 1996/1997: Ninth District corporation is awarded CDFI funds

Fall 1996: What is Community Affairs?

Summer 1996: Community Development and the CRA


NBIA Review, published by National Business Incubation Association. To subscribe to this bimonthly newsletter, contact the NBIA, 20 E. Circle Dr., Suite 190, Athens, OH 45701; (614) 593-4331, fax (614) 593-1996, e-mail INFO@nbia.org on the Internet or http://www.nbia.org on the World Wide Web.


1996 Directory of Community Development Investments of Bank Holding Companies and State Member Banks, published by the Federal Reserve Board, describes community development corporations and investments approved by the Federal Reserve System. To obtain a copy, contact Community Affairs, Minneapolis Federal Reserve Bank, at (612) 340-2277.

American Indian Tribal Sovereignty is a brochure that provides readers with a basic understanding about the sovereign status of American Indian tribes. To obtain a copy, contact the American Indian Research and Policy Institute at (612) 644-1728 or view it on the World Wide Web at http://www.airpi.org/indinsov.htm.


Where to get lists of future CRA evaluations

Many of the schedules for future CRA evaluations are now posted on the Internet.

Federal Reserve Board
http://www.bog.frb.fed.us/DCCA/CRA/examsch.htm

Office of the Comptroller of the Currency (OCC)
http://www.occ.treas.gov/cra/duecra.htm

Federal Deposit Insurance Corporation (FDIC)
http://www.fdic.gov/databank/qbp/excra.html

Office of Thrift Supervision (OTS)
a supplement to Community Dividend

State Economic Development Finance Programs

Ninth District States
Michigan - Upper Peninsula
Minnesota
Montana
North Dakota
South Dakota
Wisconsin

Acronyms in this guide
** Private lender participation
BND Bank of North Dakota
BOI Montana Board of Investments
DATCP Wisconsin Department of Agriculture, Trade, and Consumer Protection
DEQ Michigan Department of Environmental Quality
DNR Department of Natural Resources
FSA Farm Service Agency
GOED South Dakota Governor's Office of Economic Development

MICHIGAN - Upper Peninsula

Alternative Investments Division
Purpose: Invest in businesses that have strong management and very good growth, profitability, and equity-appreciation potential. Invests up to 5% of certain retirement systems in businesses or venture capital firms on equity, debt, or warrant basis.
Eligibility: Companies that have a unique product, service, or market position with proprietary competitive edge; no real estate investments or working capital for debt payoff or salaries; preference for Michigan location.
Other: Prefers coventuring with other alternative investment funds.
Contact: Michigan Department of Treasury, (517) 373-4330

Business and Industrial Development Corporations (BIDCOs)
Purpose: Make loans and investments of growth capital in Michigan businesses.
Description: These private financial institutions serve diverse market niches; each sets its own criteria for types of investments.
Eligibility: Eligibility and focus vary by BIDCO.
Private lender participation: No. BIDCOs are lenders.
Contact: Michigan Jobs Commission, (517) 373-7550

Capital Access Program
Purpose: Leverage private bank financing to encourage business loans that are somewhat riskier than conventional bank loans.
Description: Borrowers pay a one-time premium of 3% to 7% of the loan to help cover loan losses. The extra payment increases the cost, so program is used by businesses that do not qualify for conventional financing.
Eligibility: Michigan businesses. Housing projects, passive real estate investment, and refinancing existing debt are not allowed.
Contact: Michigan Jobs Commission, (517) 373-7550

Customer Assistance
Purpose: Provide access to state services for economic development and workforce customers; information about starting a business, including appropriate state licensing.
Contact: Michigan Jobs Commission, (517) 373-9808, Customer Assistance

Downtown Development Authorities
Purpose: Establish authorities to revitalize a community's downtown.
Description: Authorities provide economic analysis; long-range planning; land acquisition/improvements; building construction, improvement, rehabilitation, maintenance, and operation; and public facility acquisition/construction. Uses tax-increment financing, revenue bonds, special tax levy, property revenues, donations, and grants.
Eligibility: Any city, village, or township; for business districts only.
Contact: Michigan Jobs Commission, (517) 373-9148

Economic Development Corporations (EDCs) **
Purpose: Assist local job creation by acquiring, developing, and maintaining land, buildings, machinery, furnishings, and equipment necessary to complete a project plan.
Description: EDCs finance industrial parks, port improvements, agricultural and forestry projects, industrial and commercial facilities; refinance existing EDC bonds. Property may come from gifts or be financed by tax-exempt bonds.
Eligibility: One EDC for each municipality.
Other: The EDC could take a subordinate position to any lender. EDC may enter into leases or other contracts for any project, but must operate as lessor. Projects approved by governing body.
Private lender participation: Yes.
Contact: Michigan Jobs Commission, (517) 373-9148

Employee Ownership Program
Purpose: Provide information, technical assistance, financing to help establish employee-owned companies.
Contact: Michigan Jobs Commission, (517) 373-6234

Export/Foreign Direct Investment Program
Purpose: Promote export of goods and services; attract foreign investment.
Contact: Michigan Jobs Commission, (517) 373-6390 or (800) 346-2382

Freight Economic Development Project Loans/Grants
Purpose: Finance freight transportation infrastructure improvements for business and industry development and expansion.
Contact: MDOT, (517) 373-6494

Industrial Development Revenue Bonds (IDRBs)
Purpose: Provide healthy, profitable firms locating or expanding in Michigan with capital cost savings using tax-exempt interest rates.
Contact: Michigan Jobs Commission, (517) 335-4417

Land Transfers for Economic Development Purposes
Purpose: Allow property transfer between governments for up to 50 years for an economic development project beneficial to both units of government.
Contact: Michigan Department of Commerce, (517) 373-9280

Metropolitan Councils
Purpose: Establish and empower councils to initiate public improvement projects.
Contact: Michigan Department of Commerce, (517) 373-9280

**Michigan Business Ombudsman**
Purpose: Business advocate in state government.
Contact: Michigan Jobs Commission, (517) 373-9808

**Michigan Business Strategies 2000**
**Purpose:** Provide business consulting for small businesses to encourage long-term growth.
**Contact:** Michigan Jobs Commission, (517) 335-3099

**Michigan Certified Industrial Park Program**
**Purpose:** Create standard characteristics and services required of certified industrial parks.
**Contact:** Michigan Jobs Commission, (517) 373-9808

**Michigan Child Care Clearinghouse**
**Purpose:** Assist employers and organizations in exploring child care benefit options.
**Contact:** Michigan Jobs Commission, (517) 373-9808

**Michigan Economic Growth Authority (MEGA)**
**Purpose:** Promote economic growth and job creation in Michigan that otherwise would not occur.
**Description:** Awards credits against the Single Business Tax (SBT) for up to 20 years and 100% of incremental SBT liability attributable to expansion/new location, and personal income tax attributable to new jobs created.
**Eligibility:** Financially sound manufacturing, research and development, wholesale, trade, or office operations that offer new jobs and wage minimums. Incentives must be necessary for the expansion/location. There must be economic commitment from local organization; construction/location must not have started yet; project must be fiscally beneficial to state.
**Contact:** Michigan Jobs Commission, (517) 373-9808

**Michigan Technical Assistance Center Network (MTAC)**
**Purpose:** Assist with government contracting and exporting.
**Contact:** Michigan Jobs Commission, (517) 373-1340

**Midwest Manufacturing Technology Center (MMTC)**
**Purpose:** Enhance productivity, quality, and competitiveness of small- and medium-sized manufacturers.
**Contact:** NIST/Midwest Manufacturing Technology Center, (800) 292-4484, ext. 4023

**Minority Business Services (MBS)**
**Purpose:** Provide technical services to encourage creation and growth of minority-owned businesses.
**Contact:** Michigan Jobs Commission, (517) 335-3099

**Miprosite**
**Purpose:** Provide information about sites available for development.
Private Rail Loans
Purpose: Encourage private railroad companies to invest in facility and infrastructure improvements and to add or improve service to shippers.
Contact: MDOT, (517) 373-6494

Site Reclamation Fund
Purpose: Facilitate environmental cleanup and reuse of contaminated sites.
Description: Grants to reclaim sites for identified economic development or to investigate sites with development potential.
Eligibility: Counties, cities, villages, and townships. Must demonstrate economic development job creation, private investment, and tax-value increase.
Funding limit: $2,000,000.
Contact: Michigan DEQ, (517) 373-8450

Site Reuse and Redevelopment Program
Purpose: Provide technical assistance to communities, economic development/environmental agencies, developers, businesses, and property owners.
Contact: Michigan DEQ, (517) 335-2109

Small Business Innovation Research (SBIR), Research and Development Grants **
Purpose: Provide small businesses access to federal research and development funding.
Description: Phase I: awards for research to evaluate scientific and technical merit and feasibility of an idea; Phase II: further development of selected ideas; Phase III: private sector investment and support. Phase I and II are funded through federal agency grants. Private lenders provide funding for Phase III.
Eligibility: For-profit businesses with less than 500 employees or individuals starting a business to research/develop/commercialize new technologies.
Funding limit: Phase I, $50,000-100,000; Phase II, $750,000
Private lender participation: Yes. Phase III.
Contact: MERRA RD&C; Specialty, (313) 930-0033

Tax Increment Finance Authority
Purpose: Support public facilities related to private commercial and industrial projects.
Contact: Michigan Jobs Commission, (517) 373-9148

Technical Assistance Section (TAS)
Purpose: Inform and assist industries, local government, and the public with DEQ environmental programs.
Contact: Michigan DEQ, (517) 335-5540

Underground Storage Tank Programs
Purpose: Provide registration/regulation/financial responsibility for underground storage tanks and technical assistance for removal/cleanup.
Urban Land Assembly Program

**Purpose:** Acquire real property for revitalizing economic base of cities experiencing distress and decline.

**Description:** Revolving loan fund for land acquisition, demolition, relocation, and site improvements. Cities must repay a portion when acquired land is resold or leased for development.

**Eligibility:** City or designated nonprofit development organization. Land must be within municipality of 10 contiguous acres or more, unless critical nature of acquisition for industrial development is documented, or commercial land is within a Downtown Development Authority District.

**Other:** Unemployment rate minimum, population growth maximum.

**Contact:** Michigan Jobs Commission, (517) 335-1951

Women Business Owners Advocate

**Purpose:** Provide technical and general assistance, public/private partnerships to support women-owned businesses.

**Contact:** Michigan Jobs Commission, (517) 335-3099