

Micro Loan FAQ's

What is a Micro Loan?

A micro loan is a small loan for a small business, or in this case a start-up company. It's 'micro' because the loan size is less than \$50,000.

The purpose of these loans is to accelerate company development by providing access to capital to extend the personal investment of entrepreneurs and their own finance network during the critical stage when they are developing their businesses to the point of readiness for outside investment and/or customer sales.

What is the difference between the Ann Arbor/Ypsilanti LDFA, Eastern Washtenaw County and Michigan Pre-Seed Capital Micro Loans?

The most significant difference between these loan pools is a company's location. Where the company is registered with the state as its corporate office. The Ann Arbor fund is only available to companies registered in the city of Ann Arbor. Companies located east of U. S. 23 in Washtenaw County are eligible for the Eastern Washtenaw loan. The MI Pre-seed Capital Fund loan is available to companies throughout Michigan. Another difference between the two local funds and the state fund is the stage of the company. The Ann Arbor and Washtenaw County funds are for companies near commercialization, which means they are within a year of closing their first or second customer sale, or raising private equity that will provide significant funding to help the company be successful. The state fund loan can be used for companies that are pre-commercialization (pre-revenue and not yet raised private equity) but have a business plan and at least an early prototype.

These loans are for any innovative company with high growth potential and a market beyond the local community.

Who qualifies?

Examples of eligible Fund activities/projects would include but not limited to:

- business model or marketing strategy
- scaling product manufacturing and testing
- marketing and sales
- partner relations
- customer attraction

It is assumed that these Companies will be past the concept development and analysis phase, and have very specific needs to achieve commercialization milestones to meet the requirements of an investor or to close initial sales.

All rights to documents and plans will be held by the client company. In the event of default it is not anticipated that the Fund will take intellectual property as collateral.

A background check will be performed on founders and key executives with significant investment in the company. A search will be conducted for felony convictions and bankruptcy. Key employees with a poor record will not be considered. Background checks will be completed only for companies who have been approved for funding, and will be paid by SPARK.

What is the size of loan the fund will make?

The subordinated loan will be for amounts between \$10,000 and \$50,000 without a match requirement. Very few \$50,000 loans will be issued. Rather a smaller amount will be approved with the balance up to \$50,000 available if needed and milestones from the first loan are achieved.

SPARK or your local SmartZone will actively follow-up with companies to ensure the reporting requirements are completed.

The actual note is on the web page from which you accessed this FAQ.

How do I apply for the Micro Loans?

For both Eastern Washtenaw County and LDFA micro loans there is an application form you fill out on our website that starts the process rolling. Companies outside Washtenaw County must apply through a SmartZone. Any qualified applicant outside a SmartZone geography (i.e. Flint, Traverse City, or Saginaw) must still select a SmartZone (by geography or expertise) for managing the application. Each SmartZone is

responsible for due diligence of the companies and their requests, and sponsor only those requests meeting the outlined criteria. The SmartZone will collect the necessary documents and submit them for you.

For all three loans here is a list of documents you will need to provide.

- Business plan (about 10 pages)
 - Company overview
 - Market information
 - Operations
 - Product description
 - Use of funds
 - Milestones
- Management
 - One or two page bio/resume for each member of the management team
 - References (technical, professional and customers (if applicable) included in bio
- Financial history and projections
 - Amount of cash and in-kind invested to-date
 - Current balance sheet
 - A Certificate of Good Standing from the State of Michigan
 - 12 month P&L projection with assumptions
 - Strategy for follow-on funding/financing

What other information must be provided for consideration?

There is a [Due Diligence checklist](#) the SmartZones will use as a guide to assess the stage of each company and preparedness for investment. A similar checklist is provided for you on this web site so you will know what to expect to be asked and the documentation you will have to provide. Although early stage companies are not likely advanced enough to answer all the questions, a company will be expected to answer most, have all the necessary legal documents, and answer the key points in each of the categories.

Confidential information should not be provided, unless it is clearly identified as such. The documents you provide are not a matter of public record so you may attach documents like your business plan with confidence it will not be shared outside the circle of fund advisors and consultants.

How long does the application and granting process take?

The Fund will accept applications at any time. Requests, if complete, will be forwarded for review within one week. Reviews are normally completed in four weeks. Total time for decision and funding should be less than 60 days.

How often can I apply?

If you are turned down you may reapply at any time but only one additional time. You are given the scores and comments of the reviewers to help you in your response.

In your reapplication you should provide the following documents to be reviewed.

- Updated Business Plan with changes highlighted
- A maximum five page response to the issues raised in the commentary from the reviewer(s).

Who reviews the applications and makes the investment decision?

For both the Eastern Washtenaw County and LDFA micro loans, SPARK will review deal submissions as submitted and forward applications to its Business Accelerator Advisory Board to recommend funding or not. They may recommend an amount different than the request. They will provide constructive feedback for all proposals as an added value. The review criteria will assess the Company's potential to become a viable, robust, high growth business, and ultimately able to repay the loan. Funded companies will continue to work with SPARK for mentoring and business acceleration services. Just as traditional seed investors must provide their portfolio companies with hands-on help, direct involvement by SPARK will ensure that the deal is

actively managed to agreed-upon milestones and thereby enhance the chance for success of each new venture funded.

The MI Pre-seed Fund application will be reviewed by partner SmartZone organizations.

Are there reporting requirements for companies receiving an investment?

The following information will be required of each successful company, in addition to any specific milestone information required, annually:

1. Number of new patents, copyrights, trademarks applied for and issued
2. Annual sales/revenues
3. Number of new jobs, existing jobs, and projected new job growth
4. Follow-on investment figures and other metrics to gauge the positive effect on Michigan's progress toward building a competitive edge technology economy
5. The total number of new licensing agreements by institution and the number of new licensing agreements entered into with other firms.
6. Products commercialized.
7. Key milestones achieved or not during the previous year.

This information is gathered through an annual survey of all loan recipients. It is a requirement that you fill this out. Most of the information is collected and reported in aggregate. Employment data and the amount of new equity raised might be provided in reports to public entities which provided funding for the loan. Names of investors, partners and customers will always be kept confidential.

Where does the money come from for these funds?

Funding for the Michigan Pre-Seed Capital Fund is provided through the 21st Century Jobs Fund program managed by the Michigan Strategic Fund and MEDC.

Funding for the Ann Arbor/Ypsilanti Microloan Fund comes from the SmartZone Local Development Finance Authority.

Funding for the Eastern Washtenaw Fund comes from Washtenaw County.