Stimulating the Industrial Sector with Public Funding:

Is the Synergy Working?

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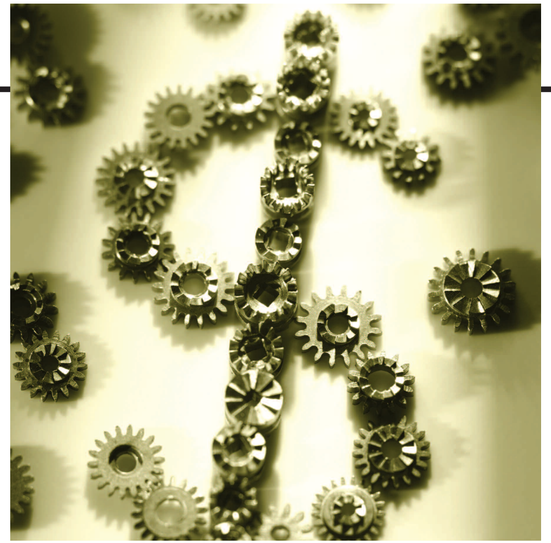
Our U.S. economy depends on the flow of money to keep its engines running. Stop the flow and the engine chokes. To restart the engine requires priming and a larger than expected level of energy or more economic resources. The preceding analogy represents the extreme case. What our country is experiencing is an underperforming or slowed engine, not a stopped one.



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So building momentum should be less of a challenge, correct?

Unlike an engine, an economy in sluggish motion exhibits friction and is impacted by human feedback. Friction retards movement and when coupled with contracting behavior leads to a further slowing of the economy. So it is not surprising that the Federal government has been pushing grant and loan funds into every existing channel as well as some new ones, in order to overwhelm the friction and constricting forces.

With so much money available, do we risk flooding the engine (i.e. the economy)? No, because the resources are phased, delivered through numerous varied channels and the uptake is self limiting.

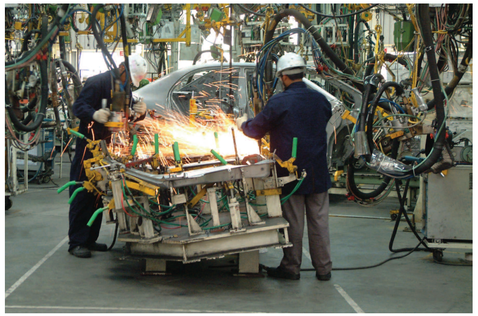
What does all of this have to do with government loan programs and manufacturing companies? Government has and continues to view the manufacturing sector as the pivotal element around which the rest of the economy functions. So, it is a good place to start asking questions about the availability and utilization of government loan programs.

What distinguishes government loan tools from traditional debt financing?

Government loan tools are sourced using government funds such as Community Development Block Grant (Block Grant), USDA Rural Development, etc. and are used to further economic development activity. This type of financing, when compared to traditional bank loans, will typically have one or more of the following characteristics:

- A lower qualification threshold (or conversely a higher capacity for risk absorption)
- Targeted users
- Subsidized interest rate
- Loan terms that extend for a longer period of time
- A forgivable component tied to project employment and investment goals
- The time needed to process the loan.

Distribution of the loan tools is extensive. Loans can be obtained from Federal government agencies, State level financing authorities and even local municipalities or the chamber of commerce. The use is often dictated by the type of business, company annual revenues, location and level of funding required. But it is important to remember that the purpose of every government loan is to further economic development. So any manufacturing company giving consideration to pursuit of a government loan must articulate the use of the funds in the context of community impact and jobs – retained and created.



USDA (United States Department of Agriculture) loans are part of the economic development program tools used by this federal agency in rural areas. No surprise here. Rural however, is generally defined by USDA as a community of 50,000 or less with the exception that smaller cities which are part of a large metropolitan community are excluded. More than one company has been surprised by this definition. Furthermore, eligible loan recipients can either be based in agriculture or not.

Federal Block Grant funds originate with HUD (Housing and Urban Development) and can be secured by a community for a specific economic development project. Block Grant funds come in grant and loan varieties. In the form of a loan, the debt agreement is structured between the local or state administrative agent and the manufacturer. The manufacturer agrees to repay the loan according to preset terms. In some instances, the local municipality is allowed to retain the repaid funds and creates a secondary - revolving loan fund. Once set up, the need for the Federal source of Block Grants is theoretically diminished.

Not all sources of state and local loan funds come from the Federal government. A community may choose to create a loan fund by setting aside area specific taxes collected, e.g. food and beverage taxes. Once the fund is created, the eligibility requirements and the compliance obligations are defined, the loan fund can then be used like any other revolving loan fund. Other creative approaches to developing a loan fund include use of specialty taxes such as casino taxes.

Are the programs used?

Credit has tightened significantly since the 3rd quarter of 2008. One would assume that government's desire to see money flow and industry's need for money would result in a rapidly growing symbiotic relationship. The potential exists. Reality is a different story.

It is important to understand why the manufacturing sector has not been soaking up every available dollar in these

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