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# Machinery and Equipment Loan Fund

## Program Guidelines

Commonwealth of Pennsylvania  
Tom Ridge, Governor  
[www.state.pa.us](http://www.state.pa.us)

Department of Community and Economic Development  
Sam McCullough, Secretary  
[www.dced.state.pa.us](http://www.dced.state.pa.us)



Amended January 2001

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# Section I – General

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## A. Introduction

The Machinery and Equipment Loan Fund (MELF), which is administered by The Pennsylvania Department of Community and Economic Development (the Department), is designed to stimulate the growth and assist in the retention of Pennsylvania businesses. The program provides low-interest loan financing for a portion of the cost of machinery and equipment purchases to eligible businesses that commit to creating or retaining jobs within the Commonwealth. MELF may be used in conjunction with other state financing programs or with programs operated by local or regional economic development providers.

## B. Eligibility

### 1. Eligible Applicants

- a. Applicants must be for-profit business enterprises whose project is or will be located within the Commonwealth of Pennsylvania. If the business applying for MELF is a subsidiary, its parent company must also be a for-profit business enterprise.
- b. In addition, an applicant must engage in one or more of the following activities at the project site: manufacturing, industrial (including industrial processing and warehouse and terminal operations), agricultural processing, or direct mining operations.

### 2. Eligible Activities

- a. MELF financing is available to eligible businesses that are acquiring and installing new or used machinery and equipment that is **directly related** to the manufacturing or industrial process. This includes environmentally essential equipment without which the manufacturing or industrial process could not proceed. The purchase of mobile equipment is eligible only if the equipment will not be titled or registered for highway use.
- b. Financing is also available to eligible businesses to upgrade existing machinery and equipment that is **directly related** to the manufacturing or industrial process.
- c. The applicant or an affiliate must plan to own the machinery and equipment that is being purchased or upgraded through an outright purchase, or through a lease/purchase agreement, or installment sale agreement under which the applicant is treated as the owner of the machinery and equipment for accounting and tax purposes. The purchase for fair market value of machinery and equipment currently in possession of an applicant, pursuant to the exercise of a purchase option under a lease or similar instrument, may also be eligible.

### 3. Eligible Costs

- a. Machinery and equipment costs may include, but are not limited to, costs of acquisition, delivery and installation.
- b. **The following limitations apply to eligible costs:**
  - Eligible costs of machinery and equipment are limited to out-of-pocket costs, including the costs of closing, incurred by a borrower. Unrealized appreciation in value may **NOT** be considered in determining eligible costs. Maintenance or overhaul of existing machinery and equipment is also not an eligible cost.

- Fees charged to a borrower by brokers, finders, and financing consultants are not eligible project costs. Fees payable to economic development agencies that assist in the preparation of the MELF application and fees payable to the Department may be included as part of the eligible project cost.
- Costs of a borrower’s own employees are treated as working capital expenditures and are not an eligible cost, even if such costs are incurred in connection with the acquisition and installation of the machinery and equipment.

**4. Restrictions**

- No Delinquencies.** The borrower and its principals may not be delinquent or in default of any existing private or public loan relating to the borrower, unless they have entered into a workout agreement satisfactory to the respective creditor(s) and are fully in compliance with the terms of that agreement. For purposes of the program, a “principal” of a borrower is any record or beneficial owner of 20% or more of an ownership interest in the borrower.
- Taxes Current.** The borrower and its principals must be current in payment of all applicable state and local taxes unless they have entered into a workout agreement satisfactory to the respective taxing authority and are fully in compliance with the terms of that agreement.
- Conflicts of Interest.** The borrower and its principals and managerial officers must disclose any potential conflicts of interest with any officials or employees of the Department.

**C. Ineligible Applicants and Activities**

1. Businesses engaged in service, mercantile, commercial or retail operations and personal and professional service entities are not eligible for funding under the MELF program.
2. Projects relating to any of the following activities are not eligible:
  - a. Refinancing any portion of the total project cost.
  - b. Projects that have commenced before receiving approval of the MELF Loan, unless the borrower has received non-prejudicial approval from the Department to commence. See the section on General Program Requirements for further details on the rules relating to commencement.

**D. General Program Requirements**

1. **Loan Size**
  - a. The maximum loan amount is \$500,000 or 50% of the total eligible project costs, whichever is less.
2. **Other Required Investment**
  - a. Loans are made in conjunction with another source or sources of financing for the eligible costs incurred, such as another lender or equity from the owners or investors.
  - b. Funds from other sources must equal at least 50% of eligible project costs.
3. **Equity**
  - a. A minimum of 10% of equity investment is required in every project.
  - b. Matching lending sources with a first or shared first lien position with MELF must have either equivalent or longer terms than the MELF loan.
  - c. Equity is defined as any source not requiring either a first lien or shared lien with MELF.

#### 4. Interest Rates

- a. Fixed interest rates of 3.75%, 5.25% or 6.75%, based on the area unemployment rate. Attached to these guidelines is the current interest and participation rate for each county.
- b. Exception: Projects that are located within state enterprise zones, state Act 47 municipalities, federal empowerment zones, federal enterprise communities, brownfield sites, and Keystone Opportunity Zones receive the lowest interest rate (currently 3.75%). Businesses engaged in advanced technology (as determined by MELF) receive an interest rate of 4.25% or 3.75%, depending on the location of the project.
- c. A brownfield site is defined as a former manufacturing or industrial facility (verified by a statement reflecting the usage history of the facility) located on a blighted site that has been vacant for more than one year and requires substantial renovations **or** a site that received Industrial Sites Reuse Program funds.

#### 5. Terms

- a. Up to seven (7) years or the life of the machinery or equipment, whichever is less.
- b. The MELF loan may not exceed the term of any matching sources with a lien prior to or shared with the MELF loan.

#### 6. Collateral

- a. All loans must be secured with a lien position on the machinery or equipment that is being financed.
- b. If necessary, the Department may require the company guarantee, personal guarantees and other collateral.

#### 7. Fees

- a. The Department charges a non-refundable loan commitment fee of 1% of the approved loan amount.
- b. A check in the required amount must be made payable to the Machinery and Equipment Loan Fund and returned to MELF with the signed and executed MELF Commitment Letter.
- c. This loan fee may be included as part of the MELF project cost.

#### 8. Job Creation or Retention

- a. For each \$25,000 of loan proceeds an approved business receives, the Department requires that at least one full-time job be created or retained at the project site within three years after the MELF loan has closed.

#### 9. Commencement

- a. The Department recognizes the long lead times involved in ordering certain machinery and equipment. Therefore, the applicant may place orders for, make security deposits on, and accept delivery of such machinery and equipment prior to approval of the MELF loan. However, the applicant is proceeding at its own risk.
- b. **The machinery or equipment may not be installed or used prior to approval of the MELF loan.**

- c. However, a company may request in writing a “non-prejudicial” letter from the Department receiving permission for the company to install and operate equipment prior to approval of the MELF loan.

#### 10. **Aggregate Limits on MELF Financing**

- a. A borrower may not be approved for more than \$500,000 in financing under the MELF program in any twelve-month period.

## **Section II – The Application Process**

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### **A. Letter of Intent**

1. As a prerequisite to an application for a loan, interested businesses must first submit a letter of intent (LOI) outlining a general description of their project and a wage rate survey/fringe benefit analysis (WRS/FBA) to the Department. The LOI and WRS/FBA forms can be found at the end of these guidelines.
2. The Department reviews each **complete** letter of intent within fifteen (15) working days of receipt to ensure compliance with the requirements of the program and determines if the project is competitive for funding given the available appropriation.
3. The Department considers the following criteria when evaluating an LOI:
  - a. job creation and retention;
  - b. job quality;
  - c. geographic impact of the project;
  - d. impact on state competitiveness;
  - e. investment leveraging;
  - f. and increase in productivity.

### **B. Application Form**

1. Following its review of an LOI, the Department notifies the business of its determination in writing.
2. If approved, the Department invites the business to apply for a MELF loan and forwards the business a Single Application along with instructions for completing the application and submitting it to the Department for processing.
3. **Complete** applications are reviewed within 30 working days.
4. If the Department receives a Single Application for a project prior to receiving a letter of intent, the application will be held until the letter of intent is received and processed.

### **C. Procedures for Accessing Funds**

1. Upon approval of a MELF loan, a commitment letter is mailed to the business outlining the terms and conditions of the loan, and the name of the attorney in the Department’s legal office who will coordinate and schedule a loan closing.

2. The commitment letter must be executed and returned within 30 days of receipt accompanied by a non-refundable commitment fee (equal to 1% of the MELF loan amount). A commitment letter is valid for one year but may be extended upon the approval of the Department.
3. Any material changes in the application, collateral or terms must be reviewed and approved by MELF.
4. MELF reviews an affidavit of costs prior to disbursement at closing.
  - a. MELF funds are **disbursed based on a percentage of participation** by all sources of funds comprising total project cost.
  - b. There shall be no more than two (2) disbursements on the MELF loan.
5. Interest is charged to the applicant from the date of the MELF check.
6. Full loan amortization begins as specified in the closing documents.
7. The borrower is responsible for all costs of closing. This includes costs of perfecting the lien on the collateral.

#### **D. Limitations and Penalties**

1. Any loan payment(s) not received and posted in accordance with the amortization schedule automatically has a penalty interest assessed to the loan account.
2. Three years after the closing date of the MELF loan, MELF will initiate a job survey to determine if the job projections have been met. Failure to meet the job projections may result in an increase in the interest rate to a rate not exceeding two percent (2%) above the current prime interest rate on the outstanding principal for the remainder of the loan unless the Department determines that failure was due to circumstances beyond the control of the business.
3. MELF must receive on an annual basis evidence of Casualty & Comprehensive insurance for the life of the loan.
4. Any material misrepresentation in any application or misuse of loan funds for ineligible activities may be cause for rejection of an application or calling a MELF loan in default. In addition, the matter may be referred to the appropriate authorities for criminal investigation.
5. Borrowers may prepay a MELF loan at any time without financial penalty.
6. Upon reasonable request of MELF, the borrower shall permit duly authorized employees of the Commonwealth to inspect the facility, books and records of the borrower.

#### **E. Contact Information**

Machinery and Equipment Loan Fund  
Private Capital and Loans Office  
Pennsylvania Department of Community and Economic Development  
Commonwealth Keystone Building, 4th Floor  
400 North Street  
Harrisburg, Pennsylvania 17120-0225

Phone: (717) 787-6245  
Fax: (717) 772-2890  
E-mail: ra-dcedloans@state.pa.us

**MACHINERY & EQUIPMENT LOAN FUND (MELF)  
LETTER OF INTENT**

As a prerequisite to an application for a MELF loan, this LOI form must be completed by the private, for-profit business and submitted to the Private Capital and Loans Office, Department of Community and Economic Development (DCED), Commonwealth Keystone Building, 400 North Street, 4<sup>th</sup> Floor, Harrisburg, PA 17120. This form must be signed by the Chief Executive Officer or any other company officer authorized to sign.

**COMPANY NAME & MAILING ADDRESS**

**BENEFICIAL OWNER & MAILING ADDRESS**

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
FEIN #: \_\_\_\_\_  
SIC #: \_\_\_\_\_  
Contact: \_\_\_\_\_  
Phone: \_\_\_\_\_  
FAX: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
FEIN #: \_\_\_\_\_  
SIC #: \_\_\_\_\_  
Contact: \_\_\_\_\_  
Phone: \_\_\_\_\_  
FAX: \_\_\_\_\_

Machinery and Equipment Costs Only:

- 1. MELF Funds Requested \$ \_\_\_\_\_
- 2. Bank Funds \$ \_\_\_\_\_
- 3. Other Funds \$ \_\_\_\_\_
- 4. Total Project Cost \$ \_\_\_\_\_

5. PROVIDE PLANNING DATES

- Equipment to be ordered \_\_\_\_\_
- Expected Delivery date \_\_\_\_\_
- Installation completed by \_\_\_\_\_
- Upgrade completed by \_\_\_\_\_

6. Identify the source(s) of Bank and Other Financing to complete the project.

\_\_\_\_\_ \$ \_\_\_\_\_  
\_\_\_\_\_ \$ \_\_\_\_\_  
\_\_\_\_\_ \$ \_\_\_\_\_

7.

# of Jobs	At Project Site (include jobs to be transferred)	In PA (including project site)	Worldwide (including PA)
Existing Full-Time			
FT Jobs to be Created			
FT Jobs to be Retained			

8. Average salary of jobs created/retained, and percent of employee benefits based on that salary:  
EXAMPLE: \$20,000 + 20%.

**DESCRIPTION OF BUSINESS** (If additional space is needed, provide on separate sheet and attach)

HISTORY:

PRODUCT:

9. Describe anticipated productivity increase as a result of the financing. (If additional space is needed, provide on separate sheet and attach)

10. Describe the machinery or equipment. (If additional space is needed, provide on separate sheet and attach)

11. Exact **SITE ADDRESS** where machinery or equipment will be located (include municipality, township or borough, and county).

12. Will project be located in any of the following: (check appropriate box or boxes)

- Designated Enterprise Zone       Planning Stage Enterprise Zone       Federal Empowerment Zone  
 Financially Distressed Municipality under Act 47       Federal Enterprise Community       Brownfield  
 Keystone Opportunity Zone       Not Applicable

13. Does Company export outside of U.S.A.?  Yes  No If yes, list percentage (%):

14. Advanced Technology projects may receive a lower interest rate. If you believe your company may qualify, please contact the MELF office at (717) 787-6245.

15. Is the Company presently working with any other individual or program at DCED? If so, state name and DCED office:

Name of Company:

\_\_\_\_\_  
Signature and Title

Date:





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