



Washington Square Building, Suite 1025
Lansing, Michigan 48909
Phone: 517/373-6466

EMPLOYEE-OWNED CORPORATION LOAN FUND

House Bill 4029 as introduced
First Analysis (2-23-89)

Sponsor: Rep. Perry Bullard
Committee: Corporations and Finance

RECEIVED

APR 17 1989

Mich. State Law Library

THE APPARENT PROBLEM:

Public Act 217 of 1985 established the \$1 million employee-owned corporation revolving loan fund, from which loans may be made to employee-owned corporations. Currently, the law defines the minimum interest rate that may be charged as either the minimum of six percent less than the current United States treasury rate for a loan of a similar size, or the maximum interest rate permitted under the Municipal Finance Act, whichever is less. The Department of Commerce has interpreted the act to mean that the minimum rate must be used, and — since the maximum rate permitted under the Municipal Finance Act has been determined to be 18 percent for fund purposes — the interest rate charged on the three loans issued to date has been under three percent. Some people contend that the language in the act defining minimum and maximum interest rates has caused confusion and has resulted in delays in the processing of loans. Others argue that, while the interest rate provisions under the act were established at a time when rates were artificially high, recent low interest rates have resulted in loans being made that are far below competitive market rates. Should this practice continue, it is feared that the integrity of the fund will be jeopardized, since loan defaults could exceed interest rate income. It is felt that, while it was the intent of the employee-owned corporation act to encourage the formation of employee-owned companies, it was not intended to provide loans at such low interest rates. It is recommended that a more realistic interest rate be adopted that would accomplish the objectives of the act and eliminate confusion on the proper interest rate.

THE CONTENT OF THE BILL:

The bill would amend Public Act 217 of 1985 to delete the minimum interest rate requirement (six percent less than the rate on a current U.S. treasury loan of similar size and length of maturity) on loans made from the revolving loan fund to employee-owned corporations. The bill would require instead that at the time a loan was closed the interest rate charged by the department would have to be set at three percent less than the prime rate, as published in the previous Monday edition of the Wall Street Journal. In no case, however, could the interest rate on the loan exceed 12 percent.

MCL 450.808

FISCAL IMPLICATIONS:

According to the Department of Labor, the bill would result in additional money being paid into the fund, which should be sufficient to cover losses due to loan defaults. (2-18-89)

ARGUMENTS:

For:

By providing a more realistic means for calculating loans, the bill will eliminate confusion among prospective borrowers while still accomplishing the objective of the act

by providing loans at below market interest rates to employee-owned corporations. The bill would also result in more money being paid into the fund.

POSITIONS:

The Department of Labor supports the bill. (2-18-89)

The Michigan AFL-CIO supports the bill. (2-22-89)

The Department of Commerce has no position on the bill. (2-22-89)

H.B. 4029 (2-23-89)