



DCEO Social Equity Cannabis Business Development Fund Loan

Q & A

Eligibility

Q: Who is eligible for the social equity loan?

A: The eligibility criteria for a social equity program loan are set forth in the Cannabis Regulation and Tax Act (410 ILCS 705). An applicant is a Social Equity Applicant if it meets one of the following criteria:

- Has at least 51% ownership and control by one or more individuals who:
 - Have lived in a Disproportionately Impacted Area in 5 of the past 10 years (**visit <https://www2.illinois.gov/dceo/cannabisEquity/Pages/default.aspx> for a map of Disproportionately Impacted Areas**); or
 - Have been arrested for, convicted of, or adjudicated delinquent for cannabis-related offenses eligible for expungement, including cannabis possession up to 500 grams or intent to deliver up to 30 grams; or
 - Have a parent, child, or spouse that has been arrested for, convicted of, or adjudicated delinquent for cannabis-related offenses eligible for expungement, including possession up to 500 grams or intent to deliver up to 30 grams.
- Has more than 10 full-time employees, and more than half of those employees:
 - Currently reside in a Disproportionately Impacted Area (**visit <https://www2.illinois.gov/dceo/cannabisEquity/Pages/default.aspx> for a map of Disproportionately Impacted Areas**); or
 - Have been arrested for, convicted of, or adjudicated delinquent for cannabis-related offenses eligible for expungement, including cannabis possession up to 500 grams or intent to deliver up to 30 grams; or
 - Have a parent, child, or spouse that has been arrested for, convicted of, or adjudicated delinquent for cannabis-related offenses eligible for expungement, including possession up to 500 grams or intent to deliver up to 30 grams.

Q: If the applicant has filed for bankruptcy is it going to disqualify the application?

A: Personal bankruptcy will not disqualify an applicant.

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Q: Is your credit score checked for the loan?

A: The Social Equity Cannabis loan program does not require a credit check.

Q: Can I co-sign a social equity loan if I don't live in a Disproportionately Impacted Area, but my brother does and he is applying for a 51% ownership and I have 49% ownership?

A: As long as the applicant meets the criteria for a [social equity applicant](#), it is eligible to apply for a social equity loan.

Q: What if you have a LLC with 51% social equity and others total 49%? Can you all together apply for the social equity loan?

A: As long as the applicant meets the criteria for a [social equity applicant](#), it is eligible to apply for a social equity loan. In this specific case, if the majority ownership of the entity that seeks and obtains the cannabis license meets the social equity criteria then it will also be eligible to participate in the loan program.

Q: Must I have applied for an Adult Use Dispense License with the Illinois Department of Financial & Professional Regulation (IDFPR) or Craft Grower, Infuser, or Transporter license with the Illinois Department of Agriculture (IDOA) to be eligible for a Cannabis Loan from DCEO?

A: Yes, you must have applied for a dispensary license as an SEA to be eligible for the dispensary loan program at this time. We ultimately cannot issue a loan unless you have received a license.

Documentation Requested

Q: Part of the documentation requested includes the past five years tax returns for each Principal Officer and the Business Applicant. Does this apply to Principal Officers who have no percentage of ownership in the entity seeking a license? For example, if I'm part of an entity seeking a license that includes ten principal officers but only five of these officers have ownership, will all ten of us have to provide five years of tax returns or just the five with percentage of ownership?

A: DCEO requests the tax returns of any principal officer with a financial interest in the cannabis business. A principal officer is defined as: (1) a cannabis business establishment applicant or licensed cannabis business establishment's board member; (2) an owner with more than 1% interest of the total cannabis business establishment or more than 5% interest of the total cannabis business establishment of a publicly traded company; (3) a president, vice president, secretary, treasurer, partner, officer, member, and manager member; (4) a person with a profit sharing, financial interest, or revenue sharing arrangement; (5) a person with authority to control the cannabis business establishment; or (6) a person who assumes responsibility for the debts of the cannabis business establishment. If the principal officer meets one or more elements of this definition and has a financial interest in the business the principal officer must submit tax returns for the past five years.

Q: I was not required to file my taxes because I made less than \$5,000. My business partner did not file taxes because he was not employed. We qualify as social equity applicants. What can I submit if we do not have tax returns due to little to no income?

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A: If a principal officer does not have tax returns due to unemployment or limited income earned any of the 5 tax reporting years the principal officer can submit a Zero Income affidavit. Keep in mind that applications will be denied if the social equity principal officer is delinquent in filing any required tax returns or in paying any amounts owed to the state of Illinois.

Uses of Funds

Q: What can DCEO social equity loan funds be used for?

A: Loan funds can be used to support the “ordinary and necessary expenses” of running a cannabis business, such as those expenses incurred in day-to-day operations that are appropriate and helpful to the success of the business. For example, loan funds can be used to pay for inventory, wages, rent, and other operational expenses customary for a cannabis business establishment. Loan funds may not be used on capital expenditures such as build-out of business space or license fees unless approved by DCEO. Borrowers may receive approval to use funds for build-out, but only after DCEO ensures the borrower understands any obligation to comply with the Prevailing Wage Act. The Prevailing Wage Act, if it applies to a borrower’s project, may require a borrower to pay above specific wage levels for certain contractors and subcontractors and submit additional records to DCEO or the Department of Labor.

Q: If granted license can we use loan money to pay the required \$30,000 fee?

A: License fees are not an eligible use of loan funds unless approved by DCEO.

Q: Can equity loan be used for first inventory purchase?

A: Yes. Eligible expenditures include day-to-day operations of the cannabis business, which would include inventory purchases.

Terms of the Loan

Q: What will the loan terms be?

A: The loan agreement will have a variety of terms required by law or to ensure stewardship of public funds. While we anticipate that most loans will have 5-year repayment terms with no initial payments due for one year, DCEO will negotiate the funding terms based on borrower need, market conditions, and the availability of funding, among other criteria.

Q: Is there a limit to how much I can request?

A: There is no limit on the loan size that an applicant can request. DCEO anticipates that the typical loan for cannabis dispensaries and infusers will not exceed \$250,000, loans to transporters will not exceed \$50,000, and loans to craft growers will not exceed \$500,000. However, DCEO will make final loan amount decisions on a case by case basis.

Q: What is the interest rate on the loans DCEO will offer?

A: DCEO will offer interest rates below 10%, which is well below the market rate for cannabis industry loans.

Loan Timeline

Q: What is the deadline for applying for a social equity loan?

A: Cannabis Program Financial Assistance Uniform Loan Application is now available for all those who applied for a dispensary license and for those who are applying for a craft grower, infuser, and transporter licenses.

- Acknowledgement Letter (for those applying for craft grower and/or infuser licenses)
 - If you were intending to use the Cannabis Loan from DCEO to meet your liquid asset requirement, then you have to submit your Cannabis Program Financial Assistance Uniform Loan Application by no later than **Friday, April 24, 2020 by 5:00 p.m.** Please include in the Cannabis Program Financial Assistance Uniform Application an indication that you need a loan acknowledgement letter, via “Message to Recipient (Optional)” within the electronic submission. For specific Exhibits requested in the Cannabis Program Financial Assistance Uniform Loan Application that are also a part of the IDOA craft grower or infuser license application, cannabis loan applicants **may submit their Cannabis Program Financial Assistance Uniform Loan Application to DCEO without those Exhibits to receive an acknowledgment letter.** This applies only to the license application exhibits referenced in sections IV.B Exhibit 1, IV.B Exhibit 7, IV.B Exhibit 8, and IV.B Exhibit 11 of the Cannabis Program Financial Assistance Uniform Application, which must be received by DCEO no later 24 hours after the IDOA license application deadline.
 - The acknowledgement letter is the document you would submit to IDOA to meet the liquid asset requirement. If you have other liquid assets to satisfy the requirement, you **do not** need to submit an acknowledgement letter from DCEO for the liquid asset requirement.
 - This acknowledgement letter is not a guarantee that you will be approved for funding by DCEO; however, it can be used to meet the liquid asset requirement for now.
- Conditional Funding Approval (Pre-Approval letters) (this applies to all who applied for a dispensary license and all those who are applying for craft grower, infuser, and transporter licenses)
 - Once DCEO receives a complete Cannabis Program Financial Assistance Uniform Loan Application **including all exhibits**, DCEO will review your information and, if needed, may require additional information to address any application deficiencies.
 - DCEO will make conditional funding approval (pre-approvals) decisions in June 2020 for those applying for craft grower and infuser licenses who used DCEO’s acknowledgement letter to satisfy the liquid asset requirement. **Any applicant that used an acknowledgment letter from DCEO to satisfy the liquid asset requirement in its IDOA application and is denied program**

funding will be given 10 days by IDOA to secure alternative funding to satisfy the liquid asset requirement.

- You do not need to submit a Conditional Funding Approval (pre-approval letter) as part of your IDOA application.

Q: Can an acknowledgement letter be provided for the IDOA Transporter license?

A: The Department is providing application acknowledgement letters **only** for the license applications that require a demonstration that applicants have a specified minimum amount of liquid assets to support the business; **which is currently limited to the craft grower and infuser license**. This is intended to provide additional support for Social Equity Applicants (SEA) that are seeking what is a limited number of licenses, where potential for Department funding may play a larger role in whether a SEA is successful in securing a license.

Disbursement

Q: If I am approved for a loan, when can I access the funds?

A: Successful applicants will receive a conditional pre-approval letter as soon as a decision is made. Once a cannabis license is awarded, DCEO will negotiate terms and finalize a loan agreement with the applicant and initial disbursement of funds can be made. Timing of disbursement will be negotiated based on business need, but DCEO anticipates up to 25% of the loan will be disbursed at closing.

Post-Disbursement

Q: What happens if I default on my loan?

A: DCEO understands that this is a high-risk industry and that there may be marketplace obstacles to near-term success (such as difficulties in obtaining zoning permits or supply shortfalls). DCEO is committed to working with Qualified Social Equity Applicants to become successful participants in the cannabis industry and will review events of default to determine whether forbearance would be likely to assist the borrower in becoming successful. As stewards of public funds, DCEO may require the loan to be by personal guarantees of the borrower's principal officers, or other commercially reasonable terms that will help mitigate losses and recover funds for future borrowers. Specific collateral and default terms will be determined on a borrower basis.

Q: What sort of reporting will be required by DCEO for loan recipients?

A: DCEO will require regular (at least quarterly) reporting on the use of the loan proceeds, financial condition of the business, project implementation, hiring levels, economic output, and other information necessary to assess the condition of the borrower and compliance with the loan agreement.