

Guidelines

For

Business Assistance Loan Program

Funded By

City of Winters

With

Community Development Block Grant

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COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) BUSINESS ASSISTANCE LOAN PROGRAM GUIDELINES

1.0 INTRODUCTION

The City of Winters here after called “Lender” has established a Business Assistance Loan Program, here after called “the Program”. The Program is designed to stimulate economic growth and create jobs that will improve the living conditions of residents in the community. The Program provides affordable non-conventional financing to eligible businesses and development projects. Businesses and development projects receiving these funds will in turn be required to develop a sufficient number of net new jobs, or in the case of business preservation, retain existing jobs. These Program guidelines have been formally adopted by the Lender and approved by the state CDBG program.

2.0 BUSINESS ASSISTANCE PROGRAM OVERVIEW

2.1 PROGRAM ADMINISTRATOR

The Lender will secure the services of a qualified program administrator, here after called “the Administrator”, who has experience in originating business assistance loans and is familiar with state CDBG requirements. The Administrator’s detailed scope of services will be negotiated and included in a formal agreement for services executed between the Lender and Administrator. In general, the Administrator will market the Program, accept and process applications, underwrite and recommend approval of loans, ensure proper loan closing and disbursement of funds, maintain loan files and fiscal records and support the Lender’s staff in administration of state grants and program income used to fund this program. The Administrator will follow and ensure compliance with these guidelines.

2.2 PROGRAM SERVICE AREA

Financing under this Program is available to all eligible businesses located in the jurisdictional limits of the Lender. These CDBG funds may not be used in urban areas that receive CDBG funds annually from the federal Department of Housing and Urban Development (HUD) entitlement program.

2.3 SOURCE OF PROGRAM FUNDS

The Program is capitalized with CDBG funds provided by HUD to the State of California Department of Housing and Community Development, here after called “the Department”. CDBG funds are federal funds and as such have a number of federal requirements that must be met, as described below. CDBG funds come to the Lender from two sources: 1) Department grant awards to the Lender that are administered under a state grant contract; 2) loan funds repaid from previous CDBG activities (grant and program income loans), called CDBG program income funds, administered under a Lender adopted program income reuse plan. As loans are originated under this program the repayments from those loans are returned and re-loaned out again to other eligible businesses.

2.4 ELIGIBLE LOAN APPLICANTS

Loan applicants for the Program must be existing legal businesses with a proper local business license, proper insurance and required permits per state and federal requirements. If an applicant is a new start up business and does not have proper licenses or insurance, then these items can be made a condition of funding the loan. The business can be a tenant leasing space or an owner of property where the business is located. The existing business must create one or more new permanent full time equivalent (FTE) jobs. The business may also qualify by showing job retention such that the business will be closing down or cutting staff if not for investment of CDBG funding. Retention applicants can be businesses that are shutting down permanently or moving operations overseas. They must prove that CDBG funds will allow them to stay in the current location.

Loan applicants can also be commercial developers or commercial property owners that have property they want to build on or existing commercial space they need to fill with tenants. CDBG funds can be used for tenant improvements to help fill project's spaces. Funds can also be used to pay for off-site infrastructure costs of a new construction development project. For these projects, the developer and all the partners must be underwritten with the development AND each business locating in the development must be underwritten in accordance with these guidelines.

3.0 CDBG PROGRAM REQUIREMENTS

3.1 ELIGIBLE ACTIVITIES

Funds under this program are restricted to certain eligible costs. Some common eligible costs are: 1) operating capital; 2) furniture fixtures and equipment (FF&E); 3) rehabilitation of leased space or owned buildings (including engineering and architectural and local permits or fees); 4) purchase of manufacturing equipment (with or without installation costs); 5) refinancing of existing debt when done in conjunction with financing other eligible costs; 6) purchase of real property; 7) required off site improvements; 8) relocation grants for persons displaced due to funding of the project. Loan funds will be disbursed incrementally on a reimbursement basis as eligible costs are verified.

Funds under this Program are provided to eligible businesses as loans. Eligible loans are underwritten with similar standards and documentation as used by private commercial lenders: credit scores, equity contributions, historic income, projected income, collateral, and debt coverage. CDBG underwriting can be more flexible in some instances, depending on the business and amounts requested. The terms of the loan are typically more favorable than conventional commercial lenders, with lower interest rates and longer terms for repayment. These more favorable terms must be balanced by the borrower and Lender with the requirements to create jobs and meet other CDBG program requirements. The Administrator will work closely with the eligible businesses to ensure they understand the requirements of the Program and the benefits of participating.

3.2 INELIGIBLE USE OF FUNDS

Projects that do not create permanent jobs are not eligible. Projects that are primarily housing in nature are not eligible. Projects not meeting a CDBG national objective or public benefit or federal CDBG underwriting standards are not eligible. Projects must have reasonable assurance of repayment of loan funds.

Funds under this Program will not pay for reimbursement of expenses incurred prior to Department and local loan approval and/or completion of project's environmental review. Program funds will not be used to facilitate the movement of a business from one labor market area to another, as per job pirating restriction under HUD's regulations. Once approved, loan funds cannot be shifted from one approved type of cost to another without formal written approval. Funds cannot be used to support other businesses in which the borrower may have an interest. Non profits are not eligible to use funds for furniture fixtures and equipment (FF&E) or working capital. Funding a project without Department review of loan underwriting and the Department's written approval will make the project ineligible.

3.3 MEETING A NATIONAL OBJECTIVE

All CDBG funded loans must meet a CDBG "National Objective" as described in the federal regulations and statutes. Furthermore, state regulations require CDBG economic development funds to meet one of the two CDBG national objectives described below.

First, use of funds meeting the National Objective of "benefit to low income households" will require that the businesses receiving CDBG financing provide fifty one percent (51%) of the jobs created to low income persons. In order to meet this requirement, a third party designated by the Lender must certify family income levels of newly hired or retained employees to document that over half of them are qualified as low income. To ensure this requirement is met, the Lender will require low income job creation in the CDBG loan documents signed at loan closing. All employee information is confidential and will not be released.

Second, use of funds meeting the National Objective of "elimination of slums and blight" must show that the business being assisted is located in a redevelopment agency area (meets state redevelopment law definition of blighted area) or an area formally designated as blighted by the Lender based on a survey of properties in the area. These designated areas of blight must be approved by Department staff. Documentation of meeting this national objective is done by providing a map of the redevelopment area or area designated locally as blighted and also showing the business's address/location within the designated redevelopment or blighted area. In addition, as part of loan approval, CDBG assistance must be documented as directly assisting the project such that area blight is eliminated or prevented.

3.4 MEETING PROPER PUBLIC BENEFIT REQUIREMENT

Because a private business is receiving public funds, CDBG regulations require the creation of jobs by the business to show public benefit. Under the HUD federal regulations one full time equivalent (FTE) job must be created for each \$35,000 in CDBG assistance provided. So for one dollar to \$35,000 in CDBG financial assistance provided by the Lender, one FTE position must be created. Part time staff may be combined to make up one FTE. One FTE consists of 1,750 staff hours. Two FTE jobs must be created for assistance between \$35,001 and \$70,000.

As with the national objective requirement outlined above, the CDBG public benefit requirement will be enforced via a loan agreement that the borrower executes at loan closing. The loan agreement requires that the business provide payroll documentation to the Lender or the Administrator showing job creation sufficient to meet \$35,000 per FTE requirement. Once sufficient jobs have been created and documentation is supplied to the Lender then no more monitoring for jobs will be required. CDBG loans are meant to create long term employment opportunities but ongoing long term monitoring is not required.

Each person who is a new hire, or is in a position retained because of CDBG loan funds, must complete a self certification form. This form must be completed and provided to the Lender so that the demographic and income information can be put into the Annual Grantee Performance Report submitted to the Department. See **Attachment A: CDBG Economic Development Loan Underwriting Resource** for copy of sample self certification form.

3.5 OTHER FEDERAL REQUIREMENTS

There are a number of other federal laws and requirements that are triggered by the use of CDBG funding. The Lender and Administrator will take the lead and ensure compliance with these other CDBG regulations in conformance with standards set by HUD. Impacts these federal regulations will have on a proposed project will be explained to the borrower at the time of loan application.

National Environmental Policy Act (NEPA) regulations require an Environmental Review Record (ERR) to be submitted for each project / business funded with CDBG monies prior to award or approval of funds. The Lender is required to complete the proper NEPA review along with any state review under California's Environmental Quality Act (CEQA) review. The ERR level of review is based on the type of project proposed and ALL aggregated activities to be undertaken. The Administrator may complete the ERR for the Lender but the Lender must sign and take legal responsibility for the review. State CDBG staff must review and approve the ERR prior to loan approval or moving forward with the project.

Applicants will be informed of any additional time required for loan processing due to the NEPA review. The ERR will be done as soon as the Administrator

determines that the project is eligible for funding. No costs will be charged to the borrower for this process. Once an application is submitted no activities can be performed on the project until completion of the ERR as this would be a choice-limiting action under NEPA regulations.

Davis Bacon Federal Prevailing Wage Compliance is required when CDBG funding is used to pay for construction costs. This can add additional costs to projects that require CDBG funds for construction (for example: equipment installation or tenant improvements). In addition, state prevailing wage may be triggered in the use of CDBG funding. Loan processing staff will work with businesses to ensure funded businesses and projects are in compliance and disclose any additional time or work required due to the HUD federal prevailing wage regulations and federal procurement standards. Any additional costs resulting from this regulation will be incorporated into the business loan and subsidized with the CDBG funds.

Acquisition and Relocation laws may be triggered when using CDBG funds (24 CFR 570.606). Acquisition laws, both federal and state, must be followed when CDBG funds are used to assist in the purchase of real property. In the same way, federal and state relocation laws apply whenever there may be displacement of a person or business because of the use of CDBG funding. Loan processing staff will work with loan applicants to ensure the business is in compliance with any state or federal acquisition /relocation laws triggered by the project. Applicants will be informed of any additional time or costs or administrative work required due to acquisition or relocation regulations.

Required DUNs number, verification of not being on federal debarred list and insurance. All businesses who wish to receive funds under this Program will be required to obtain a DUN's number. The DUN's number is free and can be obtained online. In addition, prior to funding, the Lender will require that each business be checked to confirm they are not on the federal debarred contractors list. HUD also requires that the Department and the Lender collect certain income and demographic data from the business and any new hires resulting from the investment of CDBG funds. Applicants will be required to obtain all proper licenses and insurance to operate legally in the community.

Six (6) HUD Loan Underwriting Standards are required to be met by each CDBG loan. As previously mentioned, the loans originated under these guidelines will be underwritten using typical commercial loan underwriting criteria. There is some flexibility in how the underwriting criteria are used so the funds under this program are more advantageous than commercial business loans. In addition to the commercial lending underwriting criteria, HUD requires that six additional underwriting criteria be used because CDBG funds are public funds being provided to private for profit businesses. See **Attachment A** of these program guidelines for a list of the six (6) criteria and how to comply with them.

Using CDBG Program Income (PI) funds first is required. Lender must always use local PI on hand for the same activity first prior to drawing down funds from a state open grant. If the Lender has local CDBG program income funds on hand in a business assistance revolving loan account then the Lender will expend local program income first to fund a loan prior to requesting open grant funds from the Department.

3.6 REQUIRED LOAN REVIEW BY DEPARTMENT STAFF

Department staff must review each business assistance loan for procedural compliance with federal regulations and these adopted program guidelines. Upon review of local loan underwriting done by Lender or third party Administrator, a formal written approval letter will be issued by the Department. See **Attachment A** of these guidelines for a copy of the Department's current Loan Approval Checklist and guidance on underwriting different types of business assistance loans.

Note: It is recommended that the loan approval package be submitted to the Department for review prior to obtaining formal local approval. Once the Department has approved the loan underwriting process and CDBG regulation compliance, then the Lender can take the loan to the local loan committee for approval.

4.0 LOAN PROCESSING AND APPROVAL

4.1 PROGRAM MARKETING

Program marketing will be conducted by Administrator and Lender staff. The designated staff for the Administrator will arrange local media coverage with ads in local papers. Marketing brochures will be distributed to local chamber of commerce and business networking organizations. Presentations will be scheduled for local service organizations such as Rotary and real estate organizations in the area. Local commercial lenders will be contacted and information will be provided. Flyers will be sent to all local business owners in the program's service area. Lender staff will work closely with Administrators to ensure maximum outreach and program education takes place in the service area and that applicants receive the same information regarding the program, and that applications are processed in accordance with these locally adopted program guidelines.

4.2 FAIR LENDING COMPLIANCE

This program will be implemented consistent with the Lender's commitment to fair lending laws. No person or business shall be excluded from participation in, denied the benefit of, or be subjected to discrimination under any program or activity funded in whole or in part with Program funds on the basis of his or her religion or religious affiliation, age, race, color, ancestry, national origin, sex, marital status, familial status (number or ages of children), physical or mental

disability, sexual orientation, or other arbitrary cause. All personal information of loan applicants will be kept confidential.

4.3 LOAN APPLICATION PROCESSING

Loan applications will be processed on a first-come first-served basis. The Administrator will accept loan applications and review them for initial eligibility. Applications that do not meet basic requirements of the program will be returned with an explanation of requirements needing to be met. Applications that do meet basic eligibility requirements will be sent out with instructions including any requests for additional information. The Administrator may also meet with the business owners and visit the site of the business.

Loan files will be set up as applications are received and proper information gathered. The Administrator will pay a visit to the businesses location and meet personally with the owner(s). Technical assistance will be provided as needed to help the business provide proper information for loan underwriting. The business will be required to provide proper financial information and agree to have credit checks conducted as part of loan processing. The Administrator may provide sample financial forms (balance / cash flow sheets, profit and loss, personal financial statements, pro formas) but in no instance shall the Administrator's staff or the Lender's staff fill out financial forms for the applicant. The applicant will be referred to local supporting resources such as local business assistance development organizations that are available to assist applicants in producing proper financial statements, a formal business plan, a market study or accounting documents as needed.

Loan applicants are responsible for providing accurate and timely information to the program administration staff as part of the loan process. This includes disclosing any other businesses in which the owner has 20% or more interest. All the owners of the business, owning 20% or more interest in the business must provide proper financial information. Borrower(s) will be required to provide sources of security that the Lender can lien. Borrower(s) will provide financial information from the past performance of the business with explanations of special circumstances of past performance. Owner(s) must provide information on equity invested in the business to date and any current assets available for equity investment into the project. Borrower will be required to work with accounting staff to determine future income projections for the business that are reasonable and in line with past trends of the business. If the loan applicant does not provide required information and documentation to the Administrator in a timely fashion, then any delays in the loan approval process is not the responsibility of the Lender or Administrator.

Once the Administrator has compiled a complete loan file with all the credit, financial, and underwriting information needed to show loan is eligible under these guidelines, then a loan committee approval memo will be drafted. The draft loan memo with proper documentation per the **Attachment A** loan approval

checklist will be submitted to the Department for review. If the Department approves the loan's underwriting then it will be submitted to the Lender's Loan Approval Board (LAB) for approval. Once the loan is approved by the LAB then loan documents can be drawn for loan closing.

4.4 PROGRAM LOAN ADVISORY BOARD

The Loan Advisory Board (LAB) shall be made up of an odd number of persons. The Lender's staff shall ask LAB members to volunteer for this board. The LAB members may be from local financial institutions, the Lender, or other interested parties who have the professional capacity to review and evaluate commercial loans. See **Attachment A** for sample LAB loan approval memo.

LAB loan review and approvals will take place after Department review and approval. If the LAB makes significant changes to the approval requirements, the loan must be resubmitted to the Department for a second review and final approval before funding. LAB meetings will be scheduled by Lender staff in conjunction with Administrator staff once a loan has been underwritten and is ready for review and approval. LAB members are responsible for reviewing each loan application funding proposals and making recommendations to the Lender. LAB may request additional information and or attach contingencies for final approval and loan closing.

4.5 LOAN APPLICANT CONFIDENTIALITY

Persons serving as the Administrator and Lender and LAB for this Program will not disclose any of the Borrowers personal confidential information as part of loan approval process. All confidential information of businesses will only be disclosed to persons required to view the information as part of loan review and approval. All personal and business confidential information of loan applicants will be kept in a locked secured storage facility and shall not be available to persons outside of the program. If the Lender or Administrator or Department get a request for public records for a loan applicant then only non-confidential information, as verified by legal council, will be provided.

4.6 APPLICANT DISPUTE RESOLUTION/APPEALS PROCEDURE

Any business applying for assistance through this CDBG program has the right to appeal if their application is denied. The appeal must be made in writing to the Administrator and the Lender. The LAB will schedule a meeting for the appeal to be heard. If the application is denied a second time then the person may ask to have their appeal presented to the Lender's governing body for a final decision.

The Administrator is responsible to the Lender to assure that the Program is implemented in compliance with state and federal regulations. In addition, loans must be underwritten in accordance with proper program guidelines in a timely and responsible manner. This includes developing accurate and professional files, work write-ups and contract documents. The Administrator or his/her representatives will ensure the funded activities are completed and the jobs are created in accordance with federal regulations.

4.7 NO CONFLICT OF INTEREST ALLOWED

In accordance with Title 24, Section 570.611 of the code of federal regulations, no member of the governing body and no official, employee or agent of the local government, nor any other person who exercises policy or decision-making responsibilities (including members of the loan committee and officers, employees, and agents of the loan committee, the administrative agent, contractors and similar agencies) in connection with the planning and implementation of the CDBG program shall directly or indirectly be eligible for this program. Exceptions to this policy can be made only after public disclosure and formal approval by the governing body and authorized in writing by Lender's legal counsel. In the event representatives from the financial community on the LAB have a separate financial interest (excluding regular checking and savings accounts) in a loan applicant, such member will not participate in loan deliberations.

4.8 EXCEPTIONS / SPECIAL CIRCUMSTANCES

Exceptions are defined as any action which would depart from policy and procedures stated in the guidelines. For example, if the cost of rehabilitation for critical code deficiencies exceeds 100% of the after-rehabilitation value of the property, the LAB can, on a case-by-case basis, accept a partially secured loan.

The Lender or its agent may initiate consideration of an exceptional/special circumstance. A report on the situation will be prepared. This report shall contain a narrative, including the staff's recommended course of action and any written or verbal information supplied by the applicant. The Loan Committee shall make a determination of the exceptional/special circumstances request at a regular or special meeting.

Loan payments may, on a case by case basis, be deferred for a period of time to allow a start up or expansion of a business to take place. This payment deferral determination is made by the Administrator based on the break even point of the business in the future and the ability of the owner to pay his or herself for his or her efforts.

4.9 LOAN CLOSING PROCESS

Upon approval by the CDBG Program, the Administrator and Lender will prepare for the loan closing. The Borrower will sign all the necessary documents and agreements. The Lender will request a drawdown of CDBG funds from the Department. The Administrator will prepare the loan closing documents; prepare title and lien searches, and UCC-1 filings, if appropriate. Lender legal counsel will review all agreements and documents, as necessary. Escrow companies may be used to close loans and secure liens.

5.0 DESCRIPTION OF LOANS

5.1 DETERMINATION OF LOAN AMOUNT

The Program has no maximum loan amount. Typical loans are anticipated to be below \$200,000 per applicant. As per Department requirements, loans in excess of \$250,000 must be formally approved by the Department's Economic Development Advisory Committee (EDAC). This additional EDAC approval typically adds 60 to 90 days to the loan approval process.

Loan amounts will be determined based on number of jobs to be created or retained, the ability of the business to service the new CDBG loan payment, and the reasonableness of the costs to be paid for by CDBG. If there are not sufficient CDBG funds for the project then the program administrator can assist in locating other public or private funding to leverage CDBG funding with.

5.2 DETERMINATION OF LOAN TERM

The loan term is tied directly to what is being funded and what security is being pledged for the loan. If a business only wants operating capital then the term of the loan is normally five to seven years. If a business wants to pay for equipment and supplies then the term of the loan can be extended out to 10 years. If the loan is for real property improvements and can be secured on real property, then it can be secured for 20 to 30 years. Staff will confirm that the proper term is given based on the use of the funds and collateral being provided.

5.3 DETERMINATION OF LOAN INTEREST RATE

Most loans will have an interest rate of three percent (3%). This rate may be increased if the investment of CDBG funds at the three percent level causes the business to have an excessive profit. National standards of business profit margins will be used for comparison to make this determination. The loan's interest rate will be determined based on the underwriting analysis done by the Administrator. Some of the factors that will drive the interest rate costs are: 1) amount of equity the business brings into the proposed project; 2) ability of business to service the loan; 3) the rate of return the borrower will receive with a lower interest rate; 4) credit risk factors and management experience will also be used to determine what interest would best work for the business. By allowing the interest rate to move and not be fixed, the Lender can best tailor the loans under this program to meet the needs of different businesses in the community.

5.4 LOAN PROCESSING FEES

The CDBG program provides administration funds to pay for loan processing costs. No direct loan fees will be charged to the borrower. However, a loan servicing fee will be charged to the borrower upon close of the loan. This amount will not pay for any costs already paid for by program activity delivery. There is no pre-payment penalty on the loans under this program.

6.0 LOAN UNDERWRITING STANDARDS

6.1 INITIAL LOAN EVALUATION

Each project / business will be evaluated based on how it has performed in the past and its future financial forecasts. Specifically the following will be questions will be asked upon receipt of a loan application.

- Will the business create or retain jobs?
- Will project meet a CDBG national objective?
- Are the costs to be paid CDBG eligible?
- Are the business and all owners' credit worthy?
- Do they have good "character" (pay bills on time, collect on time)?
- If a start up, does business have management capacity?
- Does start up have solid business plan and document market demand?
- Does the business have financial expertise to expand or start up?
- Is the owner(s) contributing a reasonable amount of equity?
- Is the owner able to get conventional bank financing, if not, why not?
- Was the business financially viable in the past (net income covers debt)?
- Are there reasonable financial assumptions for future viability/success?
- Is there enough collateral available to secure the loan funds?

By collecting enough initial application information from the Borrower(s) to answer the above list of questions, the Administrator will have a good sense of how strong a borrower is and how successful they will be if given a CDBG loan. Most of this information is verbally collected at the initial site visit with the owner. By meeting the borrower and asking these questions the Administrator will know what additional information/documentation needs to be collected to provide a clear picture of how CDBG funds can be used to assist the applicant. These questions demonstrate the need for CDBG funds.

After the initial review the Administrator/ application processor will collect the proper information required for loan underwriting. The required documentation is listed in the CDBG underwriting guidance document included in **Attachment A: CDBG Economic Development Loan Underwriting Resource**. The amount of documentation and detailed underwriting is based on size of the loan and type of business (existing or start up) and whether job creation or retention is used. Additional documentation may be required to clarify special circumstances of the business. Below are some to the basic underwriting requirements for a typical loan applicant.

6.2 PERSONAL AND BUSINESS CREDIT REQUIREMENTS

Each applicant will have third party credit reports obtained for them. All owners of the business with 20 percent or more interest will have credit reports provided for them. The primary applicant business and all associated businesses of the owners (20% or more ownership) will have a Dunn and Bradstreet report

obtained on them as well.

Most credit reporting services will provide credit scores. For this program, credit scores of 550 and above are considered good credit. If no credit scores are available then a narrative must be summarized by the Administrator to give a justification for making a determination of good or bad credit. This same narrative process will be used for the business credit reports to demonstrate the good standing or poor standing of the business being evaluated.

6.3 PERSONAL AND BUSINESS FINANCIAL INFORMATION

Personal financial statements will be required for each person who owns 20% or more of the business. Financial statements need to show all assets and liabilities of the interest holder. In addition to these statements, federal tax return statements for owners and the business for the past three years are needed to give a historic perspective of income.

For the business, historic financial statements will be required. These will consist of past three year's balance sheets and cash flow statements. These statements should be put together by the person responsible for doing the bookkeeping and finance management for the business. Based on these statements the Lender can develop ratios for debt service and payment history, etc.

The business will also need to provide future projected financials. These will consist of pro formas showing projected revenue and costs for the business on a monthly basis for each fiscal year for three years out. Start ups may need to provide five years of projections. These pro formas need to be completed showing the business projections with CDBG financing and showing the business with conventional financing. This will provide evidence of the benefit / increased profit the business is receiving by using the more affordable CDBG loan. These pro formas must also show the increased costs of the business due to the new jobs created and the additional CDBG debt service.

Combined debt coverage ratio on the project with proposed CDBG financing should not be less than 1:10. Meaning for every dollar in debt, the borrower has one dollar and ten cents to in net income to cover those loan payments.

A project sources and uses form must be provided to show what funding is required to complete the proposed loan activity. This form will show the owners equity as well as private bank financing and any other investments from other sources. The sources and uses give a clear idea of what costs the CDBG loan will cover and its information must be reflected in the pro formas as described above.

Using the information in these financial statements, along with any back up documentation required, will allow the Administrator to do the project's underwriting analysis. This analysis will include both the conventional lending

underwriting and HUD required underwriting.

6.4 COLLATERAL REQUIREMENTS

All loans under this program will be collateralized using normal commercial lending standards. Collateral coverage will be assessed based on assets available as security and the level at which they are already liened. CDBG funding is typically in a subordinate position to banks and other lenders. It is the goal of the Program to get the best lien position possible to ensure loan repayments and permanent job creation. Types of collateral may include:

- Secured liens on real property,
- UCC liens on machinery, equipment, or other fixtures,
- Lease assignments, as appropriate,
- Personal and corporate guarantees, as appropriate, and
- Life insurance and other collateral, as appropriate.

Appraisal of assets may be required as part of determining how to obtain the best lien positions for the CDBG loan. Combined loan to value ratio on collateral for the typical CDBG loan should not exceed ninety percent (90%). Equipment and inventory secured should be properly discounted to reflect actual resale value when doing loan to value calculations.

6.5 BUSINESS EXPERIENCE AND MANAGEMENT CAPACITY

The Administrator will obtain resumes and management histories to show the experience of business owners and their management staff in successful operation of the existing business or a comparable business. This will be most important with start up businesses or with applicants that wish to use CDBG funds to purchase an existing business that is closing.

7.0 LOAN SERVICING

7.1 Loan Servicing Agent

Program loan repayments will be collected by _____.
Gross collected payments will be provided to the Lender for deposit into the proper CDBG program income revolving loan account(s) in accordance with the currently approved CDBG program income reuse plan. All costs for loan collection activities will be billed separately by the loan servicing agent to the Lender. Payment of loan service agent will be done using the reuse plan's general administration annual allowable costs. The Lender's loan servicing agent will provide itemized accounts of which open grants or program income accounts the loan payments should be attributed to. This information will allow the Lender to do proper program income reporting to the Department.

The Lender will require periodic financial statements from borrowers (typically annual) to be reviewed by the loan servicing agent. Upon reviewing the borrower's financial statements, the loan servicing agent will be able to determine how well the business is doing and if the business needs technical assistance to improve their business model. This review will also allow the Lender to be

proactive in exercising liens on the borrower's assets if it is clear the business is going to close.

7.2 Loan Servicing Policies

The lender has adopted a set of loan servicing policies that outline how the loan servicing agent will proceed if payments are late or no payments are received. The policies also outline how loan files will be set up and protected. These policies are available upon request from the Lender.

8.0 PROGRAM OVERSITE BY LENDER

8.1 OVERSITE OF PROGRAM ADMINISTRATOR

The Lender's staff will serve as the primary contact with the State CDBG program representative for the Program. Lender's staff will be responsible for securing services of a qualified Administrator for implementation of this Program. The Administrator can be secured via proper CDBG procurement or a subrecipient agreement or a Non-profit Development Organization Agreement.

The Administrator will follow these adopted program guidelines. The Lender's staff will work directly with the Administrator and be kept informed of all marketing efforts and outreach. The Administrator will provide a monthly tracking sheet to the Lender's staff that shows all applications received and in different stages of process.

As per the agreement between the Lender and Administrator, all required reports for the Program will be reviewed and approved by the Lender's staff prior to any signatures. For financial reporting, the Lenders staff will ask for the Lender's fiscal staff to review and approve each fiscal report.

Once a loan is able to be approved, the Lender's staff will review the loan package and coordinate submittal to the State for review and approval. When State CDBG written approval is given, then the Lender's staff will schedule a Loan Advisory Board (LAB) meeting for loan approval. The Lender's staff will ensure all loan documents are properly reviewed by legal staff and meet CDBG requirements prior to signing by the borrower.

8.2 OVERSITE OF LOAN SERVICING AGENT

The Lender's staff will also be responsible for securing the services of a loan servicing agent. The loan servicing agent will comply with local loan servicing policies when collecting payments. All loan repayments of past CDBG economic development loans will be serviced by one agency experienced in collecting and

servicing business loans. The Lender's staff will work closely with the loan servicing agent in monitoring the Lender's existing economic development loans. The loan servicing agent will give monthly reports on the status of loan payments to be reviewed by the Lender's Program oversight staff and fiscal staff as well. If the loan servicing agent needs to visit a borrower to talk about late payments or discuss how the business is doing, then the Lender's staff shall be invited to attend the meeting as well.

At each LAB meeting the Lender's staff and loan servicing agent will brief the members on any problems or concerns regarding repayments of existing loans. This includes decisions to foreclose and declare defaults. In addition, the governing body will make the final decisions regarding loan collection in conjunction legal counsel and staff.

City staff will complete required State CDBG financial reports for program income. City staff will complete the proper quarterly and annual program income reports for review, approval, signature and submittal by the Lender to the State CDBG program representative. City staff will consult and monitor the loan servicing agent in the same way the Administrator is monitored.