CITY OF ARCATA

REVOLVING LOAN FUND
BUSINESS LOAN POLICY
(revised 9/15/99)

1. INTRODUCTION:

The City of Arcata Revolving Loan Fund (RLF) is designed to provide the critical and necessary capital needs of small businesses located within the City. The RLF is capitalized with funds from the State of California Small Cities Community Development Block Grant(CDBG) Program. The intent of the RLF is to provide assistance to business's, which in turn will create new and/or retain existing jobs, along with increasing the commercial and industrial base of the community.

The RLF is a loan program in which loan repayments are "revolved" or "recycled" to be loaned again in the same program. Therefore, the initial funds that capitalize the Program will be used again to create additional jobs, assist more businesses and projects, and provide significant benefits beyond the RLF's initial loans.

The RLF is designed to provide no more than one-half of a project's total financing requirements. The RLF will only provide the funds necessary to bridge the "financial gap" that allows the project to move forward. The RLF is targeted to businesses and projects that have the greatest potential for long-term job creation/retention, particularly jobs created and/or retained for persons from the targeted income group. The RLF will assist businesses and projects that start-up, expand, and/or locate within the city limits of Arcata.

2. SOURCE OF FUNDING:

The source of funding for the RLF is the State of California Small Cities Community Development Block Grant Program. The reuse of these funds is subject to the City's Reuse Plan which has been approved by the State Department of Housing and Community Development (HCD). The RLF also contains funds from previous CDBG grants which are not subject to HCD regulations. A separate account is to be maintained for each source of funds in the RLF portfolio.

3. ELIGIBILITY:

3.1 **Eligible Applicants:** Eligible applicants include on-going and start-up private, for profit business concerns, non profit corporations, corporations, partnerships, sole proprietorships and cooperatives located in or expanding to Arcata. The project to be financed through the RLF must be within the incorporated area of the City of Arcata.

3.2 **Eligible Uses:** Projects must be located in the City of Arcata. Eligible business types include professional services, commercial, or industrial. Projects must create or retain jobs, primarily for the Targeted Income Group (TIG), and must leverage private or equity funds. The TIG is a low/moderate income person whose household income does not exceed 80% of the county median household income. In order to qualify for loan funds, there must be a "financial gap" that hinders the business or project from obtaining or affording the Project without the RLF. The following are eligible uses of Revolving Loan Funds:

- Land costs, including engineering, legal, grading, testing, site mapping, and related costs associated with the acquisition and preparation of land;
- Building costs, including real estate, engineering, architectural, legal and related costs associated with acquisition, construction and rehabilitation of buildings including leasehold improvements;
- Working capital / lines of credit;
- Purchase inventory, machinery, equipment, furniture, and fixtures; and
- Other uses eligible under CDBG regulations.

3.3 Ineligible Uses: Projects cannot be residential in nature. Projects must have reasonable assurance of repayment. Projects are not eligible if they create a conflict of interest pursuant to California Government Code §87100 et seq for any member of the governing body, employee, or agent of the City government who exercises policy, decision-making functions, or responsibilities in connection with the planning and implementation of the RLF. This ineligibility shall continue for one year after an individual's relationship with the City.

4. LOAN CRITERIA:

4.1 Loan Amount: Minimum $ 2,000
Maximum $50,000

This loan amount only applies to the RLF portion of the project. The maximum amount of the RLF loan may be increased to a maximum of $100,000 on a case by case basis after review by the City Manager. A borrower will not be eligible for a second RLF loan until at least 51% of the first RLF loan has been paid off; the borrower's RLF accounts are in good standing; and the proposed project meets all RLF program requirements.

4.2 Leveraging: The RLF Program's overall goal is two private dollars from equity and/or debt for every one RLF dollar loaned. On a case by case basis after review by the Community Development Director, one private dollar per RLF dollar loaned may be accepted. A private dollar can be either a loan or owner equity. Owner equity can be cash and/or land. The land is counted only for construction projects. Expenditures made by the loan applicant prior to the RLF loan award are not counted unless made as part of the submittal, and made within 60 days of the RLF loan submittal, in anticipation of such submittal.

4.3 Loan Terms: The terms of the loan may be from one (1) to seven (7) years. Principal payments may be deferred for up to three (3) months from the date the loan closed. Loan terms exceeding seven (7) years and deferred payment loans exceeding three (3) months may be approved on a case by case basis after a review by the City Manager of the asset being financed, the "financial gap, and the demonstrated need for the RLF funds.

4.4 Interest Rate: The interest rate shall be at a fixed rate. The minimum interest rate shall be 5%. The actual interest rate charged shall set on a case by case basis, and shall be set based on the needs and demonstrated "financial gap" on each loan. If the financial gap is the availability of capital, the interest rate shall be at market. If the financial gap is the cost of capital (rate, term or collateral requirements), then the interest rate is set by evaluating the financial information to determine at what interest rate the project would be viable.

4.5 Prepayment Penalty: None

4.6 Job Creation/Retention: No less than one full time equivalent job (1,750 hours annually) per $35,000 loaned shall be achieved for the overall RLF Program No loan shall exceed one job per $50,000 loaned. Two permanent part-time jobs (at least 875 hours annually) can be aggregated to count as one full time equivalent job. For loans meeting the national objective of principally benefiting TIG, at least 51% of the jobs created or retained shall be held by persons whose household income does not exceed 80% of the county median household income. In order to meet this criterion, the employee must be from the TIG at the time they are hired or retained. For job retention projects, an income self-certification will be conducted on all employees prior to the approval of the loan. And, after a loan is funded, a representative sample of the retained employees will be income screened to determine the accuracy of the self-certifications. For job creation projects, all of the TIG employees will be screened as to income.

4.7 Collateral Requirements: All RLF loans shall be fully secured by collateral in order to maintain the RLF Program. No unsecured loans shall be made. Types of collateral may include:

- liens on real property;
- deeds of trust;
- liens on machinery, equipment, or other fixtures;
- lease assignments, as appropriate;
- personal and/or corporate guarantees, as appropriate; and
- other collateral, as appropriate.

The total liabilities of applicant’s business, excluding real property, shall not exceed three (3) times the owner’s equity after the loan has been made. Loan conditions which insure prudent business ratios may be imposed as part of the loan agreement.

4.8 Loan Fees: A fee for loan packaging services will be assessed at 1 % of the total loan amount with a minimum of $100, plus billable expenses including cost of credit check, appraisals, recording and notary fees, Uniform Commercial Code (UCC) Financing Statement filing fees, etc. This fee is for costs not paid with CDBG grant funds or program income. These loan fees may be rolled into the RLF loan.

4.9 Loan Payments: Loan Payments are due on the first of each month and payments of principal and interest will be made in equal monthly installments, calculated to fully amortize the debt over the length of the loan. A $20.00 late penalty will be assessed for loans not paid within 10 days of the payment due date. Monthly payments are applied first to the late payment penalties and collection fees, then to interest and then to principal, in that order.

4.10 Loan Assumability: No RLF loans may be assumed or assigned by any person, group of persons, or organization.

4.11 Loan Position: The RLF Note must be secured, but may take a subordinate position behind senior liens.

5. APPLICATION PROCEEDURES:

5.1 Preliminary Loan Application: The loan process begins with the applicant completing the Preliminary Loan Application contained in Exhibit A. A complete application shall contain at a minimum:

- Application form;
- Financial statements of the company covering last 3 years;
- Interim financial statement of the company from start of current financial year to most recent date available;
- Most recent personal financial statements of all owners or participants with a 20% or more interest in the company;
- Brief resumes of key management personnel and owners or participants with a 20% or more interest in the company;
- Credit verification - charge-offs or tax liens may invalidate an application, and
- Business Plan.

5.2 Application Review: After a detailed review of the Preapplication the RLF staff will give the applicant an indication of loan feasibility, and request any additional information and documentation which may be required to further evaluate the proposed project. The program will maintain the confidentiality of financial information to the maximum extent allowed by law. Only the name of the business, amount of the loan, loan terms, loan repayment status, and number of jobs created or maintained on all approved loans is reported and thereby becomes part of the public information.

If the application package is complete, RLF staff will prepare a summary analysis of the loan request and make a recommendation to the Loan Committee. Applications for RLF will be reviewed against the following criteria:

- The project and applicant must meet the eligibility requirements contained in Section 3 of this Loan Policy.
- The project must meet the Loan Criteria contained in Section 4 of this Loan Policy.
- The project must meets the RLF's underwriting criteria (Exhibit B).

- The project must comply with all local, State, and federal regulations, including but not limited to the following (Exhibit C):

  - Land use zoning;
  - Design review;
  - Building permits;
  - California Environmental Quality Act (CEQA] (Exhibit D);
  - National Environmental Policy Act [NEPA] ;
  - Davis Bacon Prevailing Wage; and
  - Other regulations which may be applicable.

- No applicant shall be excluded or discriminated against because of race, color, religion, ancestry, sex, age, national origin, physical handicap, or any other arbitrary basis.

Applicants not conforming to the above criteria, such as start-ups, bailouts, and business buy outs, will be considered on a case by case basis relative to the availability of loan funds. Start-up business shall be required to provide equity capital of 20% to 50% of the total capital needed to fund the start-up business. In addition, real property, a personal guarantee and a co-signer may be required as collateral depending on the strength of the loan application.

5.3 Appeal: Applicant may appeal the Loan Committee's decision to the Board of Directors within 30 days.

5.4 Loan Documents and Disbursement of Funds: Upon approval of a RLF loan, the RLF staff will prepare the required loan documents for closing. The Borrower will sign all the necessary documents and agreements. At the time of closing, funds will be disbursed and the Borrower will be provided with a checklist outlining their obligations under the RLF Program. Once the funds are disbursed the RLF staff will submit an invoice requesting reimbursement from the City. The City will then request a drawdown of funds from the State Department of Housing & Community Development.

6. LENGTH OF REVIEW PROCESS:

On average, the RLF review process takes six to eight weeks from submittal of a complete loan application to closing. Loan funds can be disbursed two to three weeks after signing the RLF documents. Final RLF approval will be contingent upon private lender and/or SBA approval of any companion loans to the project. Every effort will be made to facilitate the process to coincide with the private lender, and the project's requirements.

7. LINKING JOBS WITH LONG-TERM UNEMPLOYED:

The City of Arcata and the Arcata Economic Development Corporation (AEDC) work closely with the Private Industry Council to support the Job Training Partnership Act (JTPA) programs and services that provide assistance to the unemployed and low and moderate income persons. With the assistance of the State Employment Development Department, the three agencies regularly promote training activities and the labor market to potential employers in the area. Early and consistent involvement with each loan applicant will be an integral policy of the RLF.

The training, recruitment and placement activities currently operating in the community constitute the primary vehicle for insuring that the unemployed, underemployed and low and moderate income persons are linked with the jobs created through the RLF. These programs provide training and can be custom tailored specifically to meet a company's needs. Loan recipients in the RLF will be provided with a detailed description of the services and benefits, including financial, of participation in the JTPA program and will be referred to AEDC. All loan recipients will be required to sign a Loan Agreement. This loan agreement includes a non-financial employment plan agreement which lists specific jobs to be created with RLF funds and designates AEDC as the primary personnel resource for all available positions. AEDC will provide 100% income verification of all hires placed by them.

8. LOAN MONITORING:

Two separate loan files shall be maintained. The first is the legal file which holds all the loan documents, along with the collateral documents. The second is a credit file which shall contain the day-to day administrative records of the loan, financial statements and loan report.

8.1 Legal File: At a minimum the legal file shall include:

- Note
- Loan Agreement, including Non-Financial Employment Plan
- Mortgage
- General Security Agreement
- Personal Guaranty
- Corporate Guaranty
- Subordination Agreement
- Life Insurance Policy and Assignment
- Hazard Insurance Policy and Assignment

8.2 Credit File: At a minimum the credit file shall include:

- Application form,
- Historical financial statements and/or tax returns,
- Personal financial statements and/or tax returns
- Credit report,
- Resume of principals,
- Release of information form,
- Collateral review,
- Loan Committee Report,
- Disbursements (copies of all requests and actual disbursements),
- Current financial statements as they are collected,
- Insurance policy renewals, and

- Miscellaneous Correspondence.

8.3 **Borrower Reporting:** On a regular basis, the loan recipient shall provide the RLF staff with the following information:

- Quarterly and annual profit and loss statements within 60 days of the close of the quarter;
- Annual balance sheet within 60 days of the close of calendar or fiscal year;
- Summary of any substantial changes in the business operation;
- Proof of fire and liability insurance;
- Proof of all business taxes paid on a current basis;
- Annual copies of personal and business tax returns; and
- Other documents which may be relevant to the financial viability of the RLF loan.

The RLF staff will monitor and analyze the financial reports and discuss trends and changes in financial conditions with the loan recipient. If at any time during the term of a loan it is discovered that a business is willfully out of compliance with any of the conditions of the loan, the RLF staff shall meet and make arrangements with the Borrowers to come into compliance. If the Borrower refuses to meet or arrangements can not be mutually agreed upon which will make the loan in compliance, the entire outstanding loan balances shall become due and payable within ninety (90) days of the discovery of noncompliance. Loans will also become due and payable if the business receiving the loan moves from the City. Negotiating arrangements may be made on a case by case basis after review by the City's Community Development Director.

8.4 **Quarterly Reports:** A quarterly RLF report for each loan and the loan portfolio as a whole shall be submitted to the City with 30 days of the end of each quarter. The monthly receipts from the lender on each loan will serve as the basis for this report. The RLF staff shall be responsible for preparation of this report. The report will be used by the RLF staff and City to monitor the loans and identify problems. A separate report is to be submitted for each source of funds in the RLF portfolio. The report shall be submitted on forms provided by the City and shall contain a quarterly summary of the beginning fund balance, principal and interest recaptured during the quarter, disbursements made during the quarter and funds committed but not yet disbursed, and amount remaining in the RLF which is unencumbered. The quarterly report shall also include the last payment date and loan balance. Delinquent loans shall be identified and a narrative summary of actions to date to collect delinquent loans shall be included.

8.5 **Tickler File Report:** A quarterly report on each project detailing the dates for receipt of financial statements, employment information, review dates, insurance renewal, and other key dates.

8.6 **Employment Report:** A quarterly report on each project detailing the jobs created/retained, and those hired that meet the targeted income group criteria.