



Microenterprise Loan Information

Community Development Department
736 F Street, Arcata CA 95521
www.cityofarcata.org

Please use this information to decide whether a Microenterprise loan is right for you.

MICROENTERPRISE LOAN USES

- Operating Capital for staff salaries or lease/rent of business space
- Purchase inventory; supplies; computer programs for accounting and inventory controls; or furniture, fixtures and equipment (FF&E)
- Rehab owner occupied or leased space, including engineering, architectural, and local permits or fees
- Purchase Equipment (with or without installation costs)
- Refinance existing business debt as part of total loan financing, except credit cards
- Marketing materials and advertising, website development and servicing

INELIGIBLE USES

- Non-business debt repayment
- Personal expenses
- Support of another business

ELIGIBILITY, TERMS, APPLICATION, COLLATERAL AND OTHER REQUIREMENTS

Eligibility for Loan Review

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| <i>Location</i> | Business located within Arcata City limits |
| <i>Employees</i> | No more than 5 employees, including the owner(s) Document number of employees by payroll records, EDD reports, business financials |
| <i>Income</i> | All owners must show Income Eligibility * |
| <i>Business License</i> | Business license or proof of application |
| <i>Plan</i> | Provide business and marketing plans |
| <i>Education</i> | Complete participation in an assistance program from approved agency (such as the SBDC) |
| <i>Recommendation</i> | Provide letter of recommendation from an approved agency |
| <i>Business Goals</i> | Goals for business must be clearly defined |
| <i>Market</i> | Demonstrate understanding of market for business products or services |
| <i>Documentation</i> | Provide documentation of income and assets |

Loan Terms

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| <i>Maximum Loan</i> | \$50,000 |
| <i>Term</i> | Ranges from three to eight years (depends of use of funds and collateral) |
| <i>Interest Rate</i> | Between 3.9% and 6.9% - influenced by ability to service debt; credit history; collateral; borrower equity and investment; job creation; amount of sales or transient occupancy |
| <i>Fees</i> | No direct fees; a loan servicing fee may be charged at loan closing |
| <i>Prepayment</i> | No prepayment penalty |

Full Application Requirements

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| <i>Tax Returns</i> | Business and personal tax returns for the last 3 years |
| <i>Business Financials</i> | Business balance sheet & income statement for current and last 3 years |
| <i>Personal Financials</i> | Personal financial statement and credit history |
| <i>Project Info</i> | Proposed project summary, including specific use of funds |
| <i>Start-Ups</i> | Pro-forma financial statements for the first 3 years |

Financial Underwriting – Underwriting performed by Arcata Economic Development Corporation (AEDC)

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| <u>Credit Score</u> | 620 or below requires satisfactory explanation, and loan committee approval 621 to 680 may require explanation 680 is satisfactory |
| <u>Management</u> | Experience in operating a business successfully |
| <u>Capacity</u> | Ability to operate with loan payment costs Loan will provide for current and future needs of the business Past earning records or projected earnings show profitability |
| <u>Leverage</u> | How much private funding supports the proposed loan |
| <u>Viability</u> | Past and future viability |
| <u>Need for Funds</u> | Demonstration of need for Microenterprise financing |
| <u>Owner Strength</u> | Personal financial statements showing ability to meet household requirements |
| <u>Debt Service **</u> | Must show loan payment can be covered by at least 1.10:1 Debt Service is calculated on both personal and business financial information |

Collateral Underwriting

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| <u>Maximum LTV ***</u> | Up to 150% of loan amount |
| <u>Types of Collateral</u> | Real estate (deed of trust; may be in 2 nd or 3 rd loan position) Machinery, equipment, or fixtures (UCC filing; may be in 2 nd or 3 rd position) Lease assignment where appropriate City named beneficiary on life insurance policy Other collateral Personal and corporate guaranties |

Other Requirements

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| <u>Construction</u> | Prevailing Wage and Davis-Bacon regulations are triggered |
| <u>Procurement</u> | 3 bids or cost estimates for purchases are required (unless waived by the City) |
| <u>DUNS Number</u> | Business must obtain a Dun and Broadstreet DUNS number |
| <u>Debarred List</u> | No applicant may be on the Federal Debarred list |
| <u>Other Regulations</u> | All other City, State, and Federal laws and regulations must be followed |

* *Income Eligibility is based on 80% or less of HUD guidelines*

** *Debt Service is defined as total cash available to service debt divided by total loan payments*

*** *LTV is the ratio of Loan to Value, defined as the loan amount divided by total collateral value*

AFTER A LOAN IS APPROVED

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| <u>Loan Documents</u> | Prepared by AEDC |
| <u>Disbursements</u> | Borrower may be reimbursed for documented eligible project costs or payment may be made directly to third party vendors Working capital is reimbursed based on documented monthly costs |
| <u>Insurance</u> | Appropriate insurance is required at loan closing |
| <u>Site Visits</u> | Site visits may be made by AEDC annually or more frequently |
| <u>Financial Reports</u> | Regular submission of financial statements is required (usually quarterly and annually) Reports are reviewed, and AEDC may offer assistance in reviewing the business model Certified payroll reports are required on request |
| <u>Employees</u> | Advance notice of all new permanent employees is required on hiring |