

Guidelines  
for  
Economic Development Business  
Assistance Loan Program

Operated By  
City of Arcata  
with  
Community Development Block Grant  
(CDBG) Funding

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### **List of Attachments with Support Documents**

ATTACHMENT A: Sample Lender Loan Approval Memo

ATTACHMENT B: Lender CDBG Business Assistance Loan Agreement

ATTACHMENT C: Lender Required Documents:

1. Loan Application Form
2. Jobs Tracking Form
3. Self-Certification of Income Form
4. Loan Disbursement Schedule
5. Certification of No Conflict of Interest
6. Certification of No Job Pirating
7. Certification of Federal Regulatory Compliance.

ATTACHMENT D: Lender Adopted Business Loan Servicing Policies

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

## **1. INTRODUCTION**

The City of Arcata, hereafter called “Lender” has established a Business Assistance Loan Program, hereafter called “the Program” and “BA Program”. The Program is designed to use public taxpayer dollars to stimulate economic growth and improve living conditions of low / moderate income residents in Lender’s community. The Program provides low-cost loans to eligible for-profit businesses. In return, businesses are required to provide documentation of Public Benefit (commonly, the creation of new job), and meeting a National Objective (typically filling most of the new job positions with persons qualified as low-moderate income). These Program guidelines describe policies and procedures required for award of loan funds to eligible borrowers. The guidelines have been adopted via resolution by the Lender and approved by the California Department of Housing and Community Development, here after called “Department”.

## **2. BUSINESS ASSISTANCE PROGRAM OVERVIEW**

### **2.1. PROGRAM ADMINISTRATOR**

The Lender has secured the services of a qualified program administrator here after called “the Administrator”. The Administrator will be charged with originating business assistance loans, documenting compliance with CDBG regulations and these Program guidelines. The contact information for the Administrator is:

Agency: City of Arcata  
Department: Community Development  
Address: 736 F Street, Arcata CA 95521  
Phone Number: 707-822-5955

### **2.2. PROGRAM SERVICE AREA**

Financing under this Program is available to all eligible businesses physically located within the jurisdictional limits of the Lender. These funds may not be used in jurisdictions that receive CDBG funds from the federal Department of Housing and Urban Development (HUD) entitlement program. This Program is subject to CDBG service area requirement of substantially benefiting residents in the service area.

### **2.3. SOURCE OF PROGRAM FUNDS**

The Program is financed with CDBG federal funds provided by HUD to the Department, who in turn provides the CDBG funds to the Lender. As such, CDBG funds are federal money administered by the Department so both federal and state laws and regulatory requirements must be followed.

CDBG funds come to the Lender from two sources: 1) an active grant contract agreement

between the Department and Lender originating from annual competitive application process; 2) CDBG program income administered under a PI reuse agreement between Department and Lender.

### **3. CDBG PROGRAM REQUIREMENTS**

#### **3.1. ELIGIBLE LOAN APPLICANTS**

CDBG funds under this Program can only be expended on the eligible activity authorized under Title I of the Housing and Community Development Act of 1974 (hereafter called “Act”), section 105(a)(17): special economic development, providing direct financial assistance to private for-profit businesses.

An eligible applicant is:

- An existing business legally operating, with any required local business license, insurance, and permits per local, state and federal requirements; or
- A start-up business that may not have all required licenses or insurance, but will obtain all required licenses, insurance, and permits prior to closing; or
- A person or persons wishing to buy an existing business; or
- A business leasing tenant space or owner-occupied business in the service area.

In addition, the loan applicant must provide documentation that the proposed “project” or, use of loan proceeds, will meet CDBG eligibility criteria of National Objective and Public Benefit per Sections 3.4 and 3.5. The loan applicant must provide documentation of meeting standard commercial underwriting criteria outlined in Section 6 of these guidelines as well as the HUD CDBG mandated six underwriting standards described in Section 3.6. An eligible loan applicant must document compliance with all CDBG regulations listed in Section 3.7.

Specific ineligible loan applicants include:

- A business with an existing CDBG BA loan that has not been closed out with HCD
- A business operating a private “exclusive” recreational facility
- A non-profit business, not eligible under this program
- A businesses or person(s) with unresolved state / federal tax liens
- A business or person in the process of filing for bankruptcy, as they are not eligible until bankruptcy process is complete.

#### **3.2. ELIGIBLE PROJECT COSTS**

CDBG funds are non-discretionary and restricted to certain eligible costs. These eligible costs cover most expenses associated with economic development projects. Specifically, eligible CDBG economic development costs include:

- Operating capital and inventory
- Furniture fixtures and equipment (FF&E), with or without installation costs
- Project site improvements, new construction or rehabilitation of leased space or owned building
- Engineering and architectural plans and required permits or fees

- Purchase of manufacturing equipment (with or without installation costs)
- Refinancing of existing business debt when done in conjunction with restructuring of other existing private financing debt(s)
- Purchase of real property, when it provides positive cash flow for new jobs
- Relocation grants for persons displaced due to funding of the project
- Purchase of an existing business, including documented value of good will.

These eligible costs must be connected to the business' ability to meet an eligible CDBG National Objective per section 3.4 of these guidelines. Lender will only use CDBG loan funds to reimburse borrower for actual eligible / approved project costs.

### **3.3. INELIGIBLE PROJECT COSTS**

CDBG funds are non-discretionary, limited to certain eligible costs described in Section 3.2 above. There are also a number of ineligible costs. Some ineligible costs include:

- Costs incurred prior to submittal of BA loan application and environmental review completion
- Costs associated with residential housing development, i.e. for mixed use projects
- Costs associated with supporting "other" businesses the applicant owns
- Costs on a funded project NOT meeting a National Objective
- Personal expenses such as cars, home repairs, not directly associated with the business
- Costs of paying off credit cards (personal or business)
- Costs of paying off any personal debt not directly associated with business
- Providing CDBG loan as a revolving line of credit (LOC) is not eligible
- Cash payments of any kind made directly to the assisted business owner(s) (wages or draws) from loan proceeds
- Costs associated with a funded project when the owner(s) or business is found to be on federal debarred list
- Public infrastructure in support of the business
- Research and development costs for future production (speculative).

Once approved, loan funds cannot be shifted from one approved type of cost to another without formal written approval of Lender. If there is a substantial change in the project scope of work or underwriting, then the loan must be re-evaluated and re-approved by Lender, per state and federal regulations, prior to loan closing or disbursement of CDBG funds.

### **3.4. MEETING NATIONAL OBJECTIVE STANDARDS**

All eligible activities funded under this program must meet a CDBG "National Objective" as described in the Act, Section 104(b)(3) and federal regulations 24 CFR Part 570.483. Detail on documenting meeting National Objective standard for a project is contained in Department's guidance in its most current Grants Management Manual. Projects that do not meet a National Objective are ineligible activities. Below is a general description

of documenting how a BA project meets the National Objective of benefit to low-moderate income (LMI) persons. The Lender will use Department specific guidance for ensuring each eligible project funded is documented as meeting a National Objective.

BA projects normally meet a National Objective standard when they create jobs and provide over half, at least fifty one percent (51%), of the new job positions to LMI qualified persons. BA projects proposing to provide most of newly created jobs to LMI persons must agree to allow the Lender, or their designated representative, to meet with each job applicant prior to hiring and complete a Department Self Certification of Income Form, see **Attachment C**. After all new hires are made, payrolls must be collected by the Lender and compared to the job applicant Income Certification forms to prove over half of all newly created job positions were provided to low-moderate income persons. This will prove the project's job creation met the National Objective of principally benefiting LMI persons and allow the Lender to close out the project with the Department and HUD. All documentation of National Objective for jobs falls under Section 4.5 on confidentiality.

Some BA projects may require CDBG funding to retain jobs. In this case CDBG loan funds will assist in keeping the business from closing or to avoid terminating some staff. This type of project must document that, at the time of application, over half of existing employee positions to be eliminated are held by LMI persons. As such, the business must agree to allow the Lender or their designated representative to interview existing employees and help them complete the Department's Self Certification of Income Form. The business must also provide financial documentation that, if not for CDBG funding, the job positions will be lost and staff laid off. The business must also document that with the investment of CDBG funds, the business will continue operations and jobs can be retained. If approved and funded, the business employees must have Self-Certification of Income completed again, prior to Lender closing out the project. By verifying that, at the time of loan application and after loan disbursements, over half of the retained positions were LMI, then the project will have LMI National Objective met and it can be closed out with the Department and HUD. All documentation of National Objective for jobs falls under Section 4.5 on confidentiality.

### **3.5. MEETING PUBLIC BENEFIT STANDARDS**

All eligible project activities funded under this program must meet a minimum CDBG "Public Benefit Standard" as described in the Act, section 104(b)(17) and federal regulations; 24 CFR Part 570.483(f)(g). Public Benefit is provided by the BA loan recipient in return for use of subsidized federal funds and provides a funding limit or "cap". Meeting the Public Benefit Standard is very different than meeting National Objective Standard and should not be confused. Lender will use detailed guidance on meeting Public Benefit Standards provided in the Department's most current Grants Management Manual.

For BA projects meeting National Objective via jobs provided to LMI persons, the Public Benefit standard is jobs, and the maximum CDBG loan funding available is limited to \$35,000 per job. The Lender will require BA loan applicants to provide an estimate of Public Benefit generated by investment of CDBG funds into the project via the Job Tracking Form, see **Attachment C**. This proposed level of Public Benefit will be verified



after investment of CDBG funding. The actual level of Public Benefit (loan funds per job) may be greater than or less than the level proposed at the BA application stage. All Public Benefit data falls under the confidentiality Section 4.5.

CDBG Public Benefit requirements of the program will be disclosed by the Lender at the start of the application process. Lender will use financial underwriting to identify the need for BA loan subsidies and determine reasonable Public Benefit that will be generated from the project, i.e. the number of jobs created from proposed project. Projects with small amounts of Public Benefit may be required to bring in other sources of funding because of CDBG funding limits imposed by this standard.

### **3.6. MEETING SIX UNDERWRITING STANDARDS**

In addition to documenting that the project meets CDBG Public Benefit standard, the project must also be documented as meeting six HUD underwriting standards, per federal regulation 24 CFR Part 570.483(e). These underwriting standards are required to document a minimum “due diligence” of the Lender and ensure projects are financially sound enough to meet Public Benefit and National Objective standards, i.e. create new or retain existing job positions. The six HUD underwriting standards are general, qualitative and are supported by commercial underwriting standards in Section 6 of these guidelines. See the Department’s most current Grants Management Manual for detailed guidance on compliance with each of the six HUD underwriting standards.

The Six Underwriting Standards are:

1. Project costs are documented as reasonable (typically, third party cost estimates)
2. All sources of funding for the project are documented with final commitments
3. To the extent practicable, CDBG funds are not substituted for private (non-federal) funds
4. Documentation that project is financially feasible (based on cash flow projections to support jobs and debt service, etc.)
5. To the extent practicable, the return of the owner’s equity investment is not unreasonable (based on level of equity and proposed CDBG loan terms)
6. To the extent practicable, CDBG funds are disbursed on a pro-rata basis with other financing provided for the project.

### **3.7. MEETING OTHER FEDERAL REGULATORY REQUIREMENTS**

Since these CDBG BA loans are from a federal funding source, there are a number of federal laws and requirements which are triggered by their use. The Lender and Administrator will require BA loan applicants to provide project information which allows them to make a determination of required project compliance. BA applicants are required to sign loan disclosures and work with Lender to ensure each project is in compliance with any of the triggered, applicable regulations listed below.

National Environmental Policy Act (NEPA): Every project funded under the Program must be reviewed under HUD NEPA regulations 24 CFR Part 58 and the Lender must sign and certify an Environmental Review Record (ERR) for each project prior to approval or disbursement of loan funds. The Lender is required to sign and certify the

correct NEPA EER, per current Environmental Review Requirements *Chapter of Department's Grant Management Manual (GMM)*, along with any state review under California's Environmental Quality Act (CEQA).

The ERR level of review is based on the project's "aggregated" scope of work, which includes all proposed project funding. Any construction or equipment installation proposed will require more review work on the ERR. The ERR will be done early in application process, as soon as the project is deemed eligible, and scope of work is finalized. No costs will be charged to the Borrower for this process. Applicants must sign Department certification form that no "choice limiting action" under NEPA regulations has or will take place. The form is included in **Attachment C**.

Prevailing Wage Compliance: If a project proposes to use CDBG funds to pay costs for any construction, then federal and state labor standards compliance must be documented. Davis-Bacon Act (40 USC 276a – 276a-5) and related laws are "triggered" when any CDBG funding is used to pay for any project construction costs. Lender will follow *Department guidance in current Labor Standards Chapter of the GMM* for prevailing wage compliance on funded projects.

Additional labor costs will be added to projects proposing to use CDBG to pay for new construction, rehabilitation, or equipment installation. The Administrator and Lender will work with loan applicants to ensure project compliance. The additional time and work required by prevailing wage regulations will be disclosed to the borrower as soon as possible. Any additional costs resulting from this regulation will be incorporated into the CDBG loan approval.

Acquisition and Relocation Laws: All BA applicants proposing to use CDBG funds for purchase of real property must comply with 49 CFR Part 24 Acquisition laws. Lender will provide required Seller Disclosure for execution as part of meeting this requirement.

All BA applicants proposing projects which trigger relocation compliance i.e. result in displacement of persons per Uniform Relocation Act (URA), must work with Lender to ensure compliance with this law. Additional costs associated with relocation compliance will be disclosed to the applicant prior to CDBG loan approval and included in project loan approval.

Required Prohibition of Job Pirating Certification: All BA applicants must sign a Certification of No Job Pirating. Job pirating is prohibited per CDBG federal regulation 24CFR 570.482 (h). Job pirating is defined as using CDBG public funds to facilitate the moving of a business and associated jobs from one jurisdiction to another (business attraction). As such, CDBG federal funds cannot be used to attract / subsidize a business to move from one labor market area to another or keep a business from moving out of a labor market by making a retention argument. Lender will require all applicants to sign a non-job pirating certification, **Attachment C**. Any questions regarding possible job pirating will be submitted to the Department for final determination.

Conflict of Interest Certification: BA loan applicants will sign a Certification of No Conflict of Interest. In accordance with state and 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 BA program shall directly or indirectly be eligible for this program. Lender will require all applicants to sign a non- conflict of interest certification, **Attachment C**. Any questions regarding possible federal conflict of interest will be submitted to the Department for final determination. Any questions about state conflict of interest laws will be referred to Lender's legal council for final determination.

Required SAMs Unique Entity Identification (UEI) number, federal debarred verification and demographic data: All BA program applicants must obtain a UEI number, if they do not already have one. The UEI number is free and can be obtained online. In addition, prior to loan approval, the Lender will document that the business being assisted, and all owners and affiliated businesses, are verified as 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 beneficiaries of CDBG funds.

Required Benefit to Citizens of the Jurisdiction: Applicant must work with Lender to document substantial benefit to residents in the Program service area is obtained. This requirement does not apply to job retention. For projects proposing to document providing goods or services, the service area of the business must be within the jurisdictional limits.

#### **4. LOAN PROCESSING AND APPROVAL**

##### **4.1. FAIR LENDING COMPLIANCE**

The Program will be implemented in ways 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, gender, marital status, familial status (which specifically refers to the number or ages of children in the household), physical, intellectual or emotional disability, sexual orientation, or other basis. All personal information of loan applicants will be kept confidential, per Section 4.4.

##### **4.2. LOAN APPLICATION PROCESSING**

Loan applications will be processed on a first come first served basis. Immediately upon receipt of the application, the administrator will create a file that will contain the application and all subsequent documentation collected. The Administrator will begin by reviewing the application and documents for initial eligibility per Section 6.1. Applicants that do not meet basic CDBG requirements of the program will be sent a letter of explanation. All BA applications received, regardless of the outcome, will be kept on file to document fair lending standards. Applications that meet basic eligibility requirements will continue to underwriting.

The business will be required to provide accurate financials for past, current and future projection of the business operations. All owners will have credit checks conducted as part of loan underwriting per Section 6.0. The Administrator may provide sample financial Excel forms (balance / cash flow sheets, profit and loss, personal financial statements, and proforma) but in no instance will the Administrator's or Lender's staff

generate financial numbers for an applicant. The applicant will be offered referrals to local business support organizations to assist applicants in producing proper financial statements, develop a business plan, conduct a market study or develop industry accounting practices.

#### Loan Flow:

1. It is recommended that an applicant speak with City staff regarding BA financing requirements before submitting an application.
2. Application is submitted and reviewed for completeness, and whether it meets National Objective and Public Benefit standards.
3. Application is reviewed to ensure it meets HUD underwriting standards and any additional City requirements.
4. A complete loan file is assembled.
5. Staff presents approval memo to Loan Advisory Committee for approval, approval with additional conditions, or denial.
6. If approved, the applicant is advised of the approval and any additional conditions, and staff begins the process of loan documentation, and making arrangements for signing.
7. If declined, the applicant is advised of the process for appeal.
8. Upon loan closing and perfection of any liens, information is provided to the loan servicer.

Loan applicants are responsible for providing accurate and timely information to the Administrator as part of the loan process. This may include:

- Disclosure of all business owners with twenty percent or more ownership
- Disclosure of all other businesses the owners have an ownership interest of twenty percent (20%) or more
- Current personal financial statements for each owner
- Sources of collateral and security
- Business historic financial information, including year to date
- Sources of cash for any equity investment proposed
- Third party documentation of eligible project costs
- Market study or document basis of future sales projections
- Management capacity documentation for ability to execute
- Necessary information to clear federal overlays in Section 3.7.

If the loan applicant does not provide required information and documentation to the Administrator in a timely fashion, then there will be delays in the loan approval process.

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 approval memo will be drafted. The memo will be submitted to Lender for their approval. Once approved, the Administrator and Lender will submit project set up report to Department and craft loan documents for signing at closing with the Borrower.

### **4.3. PROGRAM LOAN APPROVAL PROCESS**

The Lender's Loan Advisory Committee (LAC) shall be made up of an odd number of persons, and consists of the Community Development Director, Finance Director, and City Manager or their designee.

The LAC authority includes, but is not limited to, loan approval, modification of existing loans, recommending special circumstances or exceptions requests to the City Manager, making recommendations to the City Council, and declining loan applications.

See **Attachment A** for Lender loan approval memo format.

Loan Advisory Committee 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. Lender staff will be responsible for reviewing each loan application funding proposal and recommending approval or rejection for the loan. Committee members may request additional information and or attach contingencies on closing or funding of the loan. If the loan is approved, then the project can move forward with loan closing.

If Lender approval is not obtained, then the BA loan applicant can take dispute resolution actions, per Section 4.5 of these guidelines.

### **4.4. LOAN APPLICANT CONFIDENTIALITY**

Administrator or Lender or any persons involved in the loan process for this Program will not disclose any of applicant's business or personal confidential information as part of loan review and 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 are not available to persons outside of the program. If the Lender or Administrator or Department receives a formal public records request for a loan applicant file, then only non-confidential information, as verified by legal counsel, will be provided.

### **4.5. APPLICANT DISPUTE RESOLUTION / APPEALS PROCEDURE**

If an application for assistance through this CDBG program is denied, and the applicant is dissatisfied with the decision, an appeal may be made. The appeal must be made in writing to the Administrator and/or the Lender, and the appeal will be presented to the City Manager for a decision. An appeal shall be made in writing, state specific and pertinent facts, and provide the basis for appeal. The appeal must be made within 10 business days of the date of the actual date of denial. The appeal must be limited to information that was not known at the time the decision that is being appealed was made.

When an appeal is filed, the Lender shall prepare a report for the City Manager. The appellant may be required to attend. The appellant is encouraged to present documentation supporting their position. At the appeal meeting, the City Manager may consider any issue involving the matter that is the subject of the appeal, in addition to the specific grounds for appeal.

The City Manager may:

- Affirm, affirm in part, or reverse the decision which is the subject of the appeal, based on findings of fact about the appeal.
- Adopt additional conditions of approval that may address issues or concerns other than the subject of the appeal.

The Administrator or Lender will provide written notification to the appellant of approval or denial of the appeal, with explanation.

#### **4.6. EXCEPTIONS / SPECIAL CIRCUMSTANCES**

Exceptions are defined as any action which would depart from policy and procedures stated in the guidelines. The Lender or Administrator's staff may initiate consideration of an exception or special circumstance to the policies in these guidelines as long as it does not violate CDBG federal / state requirements. A written analysis of the exception will be prepared and submitted with loan approval request. This analysis shall contain a narrative, including the staff's recommended course of action and any written or verbal information supplied by the applicant. The loan approval shall be made after review and acceptance of the exception or special circumstances request.

Examples of potential exception scenarios include, but are not limited to:

- A person of color does not have the traditionally recognized or minimal length of experience in the business
- A low-income person does not have the credit history or collateral required by underwriting.

#### **4.7. LOAN CLOSING PROCESS**

After Lender approval and submittal of a BA Loan Certification and Project Set Up Report to Department, the Administrator and Lender will prepare for the loan closing. Loans may be closed through an Escrow Agent or the Administrator, as determined on a case-by-case basis. 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. An Escrow Agent may be used to close loans and secure liens. Upon closing, funds will be disbursed according to the Loan Agreement.

The Borrower will sign all the necessary documents and agreements. The Lender will request reimbursement of eligible costs from the Department after Borrower has submitted documentation of eligible expenditures and Lender has paid for those costs.

### **5. DESCRIPTION OF LOANS**

#### **5.1. DETERMINATION OF LOAN AMOUNT**

The Program has a minimum loan amount of \$20,000. There is no maximum loan amount.

Typical loans are anticipated to be less than \$200,000 per applicant. Loans greater than \$200,000 shall also be approved by the City Manager. Loans in excess of \$300,000 must be approved by the City Council, and, if required, reviewed and approved by the State CDBG Program as an Over-the-Counter ("OTC") grant to the City, which is in turn loaned to the applicant.

A borrower will be eligible for a second loan for the same business if the borrower's current loan accounts are in good standing.

Actual loan amounts will be based on the business' need for capital to conduct the proposed project's scope of work and meet Public Benefit standards. Most often the amount of CDBG funding is limited based on "gap" in project financing or ability of business to support new debt or pay for required jobs from business future cash flow projections or by the amount of collateral that the business can provide as security for the CDBG debt. If there are not sufficient CDBG funds for the project, then the Administrator can assist in finding other project funding.

## **5.2. DETERMINATION OF LOAN TERM**

The loan term is determined by the loan amount, debt coverage ratio, and anticipated profitability. The Lender will balance the payoff term with the business' ability to make payments based on the pro forma developed during underwriting. The Lender may offer flexible terms with interest only periods not to exceed one year and/or longer-term loans to ensure the loan funds have maximal impact on business success. The Lender may also approve deferrals of up to 12 months if project proforma demonstrate need. Interest will accrue during deferrals.

Generally, loans under \$50,000 will have a term of five to seven years, and loans over \$50,000 will have a 10 year term. If the loan is for real property improvements and can be secured on real property, then the terms can be extended out to 20 or 30 years. A loan amortization term can be longer than the loan term, so an equipment loan may have a term of ten years but an amortization term of fifteen years, which will create a lump sum payment at year ten. Administrator will confirm that the term is correct, based on the use of the CDBG funds and loan security / collateral being provided.

## **5.3. DETERMINATION OF LOAN INTEREST RATE**

Loan interest rates will start at three percent (3.00%). This rate will be increased if the investment of CDBG funds at the three percent level causes the business to have an excessive profit or return on investment (ROI). See HUD underwriting standards discussion of undue enrichment in the Department's most current Grants Management Manual for direction on how to set interest rates to comply with this standard. By allowing the interest rate to move and not be fixed, the Lender can best tailor the loans under this program to meet the cash flow needs of different businesses in the community and ensure Public Benefit and National Objective standards are met.

Other factors that may affect the interest rate include the amount of equity brought to the loan request; capacity of the business to service the proposed debt; the rate of return (ROI) the applicant would receive with a lower rate; credit risk factors; and management experience.

## **5.4. LOAN PROCESSING FEES**

Loan application, origination, and set-up, escrow fees, and other costs associated with underwriting, including appraisal or other valuation cost and environmental review shall be paid by the applicant at time of application. These fees are non-refundable and are based on direct cost of providing the underwriting and loan review service. Fees for direct service are non-refundable.

Project costs that may be included in the loan amount include labor standards compliance cost, and relocation costs.

## **6. LOAN UNDERWRITING STANDARDS**

### **6.1. INITIAL LOAN EVALUATION**

CDBG funds are designed to support people, communities, and businesses who have not historically (and often do not presently) have access to traditional forms of financing. The lender can use the questions below to identify the people and businesses who would benefit the most from CDBG support, and as a way to mitigate the harm done by a financial system that fails to include them.

The City will strive to use care in working with small business applicants. Some applicants seeking funds through the CDBG process may experience stressors which can affect interactions with the Lender, particularly persons of color and others who have experienced systemic impacts in working with local and state funding sources. Lender and Administrator seek to support and advance all persons applying for business assistance loans regardless of their prior background and experiences to develop business acumen and be successful in working through the CDBG program processes.

Each project/business will be evaluated based on past performance, future financial forecasts, and the extent to which supporting the business supports the mission of the CDBG program. The following questions should be asked upon receipt of a loan application. While answers will vary by applicant, these questions are designed to identify eligibility but also highlight areas of assistance to support applicants in successfully completing the terms of the loan.

- Is business an eligible applicant, per Section 3.1?
- Are the proposed project costs eligible, per Section 3.2 & 3.3?
- Will project meet a CDBG National Objective, per Section 3.4?
- Will business meet Public Benefit jobs required in Section 3.5?
- Does project appear to meet six HUD underwriting standards, per Section 3.6?
- Are federal overlays triggered that will adversely impact project development?
- Does the business and owner pay bills on time, collect on time?
- Does owner have a detailed “business plan”?
- Does owner have documented market demand for projected sales?
- Does owner have management capacity to operate the business?
- Does owner have financial accounting capacity to operate the business?
- Is the owner 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 proposed loan?



- Is the owner's personal financial status stable?

By collecting enough initial application information 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 assisted with a CDBG loan. Most of this information is collected on the loan application form and verified verbally 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 BA loan applicant. These questions demonstrate the need for CDBG funds and business eligibility.

After the initial review, the Administrator / application processor will collect the information required for loan underwriting. The required documentation is listed in the CDBG underwriting guidance document provided in the Department's most current Grants Management Manual. At this same time, Administrator and Lender will begin regulatory compliance documentation, per Section 3.5. The amount of documentation and detailed underwriting is based on size of the loan and type of business (existing or start up) and what LMI National Objective is used. Additional documentation may be required for a business with special circumstances.

## **6.2. PERSONAL AND BUSINESS CREDIT REQUIREMENTS**

Each applicant will have third party credit reports obtained showing credit scores and payment history. All owners and their spouses with twenty percent (20%) or more interest in the business will have their credit reports reviewed.

For this program, credit scores of 620 and above are preferred, although scores of 550 to 619 may be accepted as a Special Condition or Exception. If a personal credit report provides a low credit score or poor credit history, applicants must provide a written explanation and justification.

It is not uncommon for business owners and/or businesses to have a low credit score or lack of credit history. If a personal credit reporting service provides a low credit score or shows poor credit history. The City seeks to support and advance all persons applying for business assistance loans regardless of prior background and experiences to develop business acumen and be successful in working through the CDBG program processes.

If it is available, the Dunn and Bradstreet report for the primary applicant business and all associated businesses of the owners (20% or more ownership) will be reviewed. If a Dunn and Bradstreet report is not available, as is commonly the case, the Lender will contact vendors or suppliers of the business to inquire as to the business payment history.

## **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 person. 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 fiscal year, historic financial statements will be required. These will

consist of past three year's balance sheets and cash flow statements, generated from past tax returns and quarterly year to date statements. These statements should be put together by the person responsible for doing the bookkeeping and finance management for the business. Past tax returns will be provided to document the statements provided. Based on these statements the Lender / Administrator can develop ratios for debt service and payment history, etc.

The business will also need to provide future projected financials. These will consist of proformas showing projected revenue and costs for the business on a monthly basis for each fiscal year for a minimum of three years from application date. Start-ups may need to provide up to five years of projection statements to show "break even" point of business. Two sets of proformas need to be completed: one showing the business projections with CDBG financing; and a second set 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 proformas must also show the increased costs to the business from adding the new job positions and the CDBG debt service.

A project sources and uses form must be provided to show all funding required for completing all project activities. This form will show the owner's 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 proformas 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. This analysis will be provided to the LAC for use in loan approval.

#### **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 there are existing liens on the assets. 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. 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 assignment 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.

Under-secured and unsecured loans must be approved as Special Circumstance based on the factors of the specific request. In general, unsecured loans will only be approved for less than three (3) years and an increased interest rate may be required. An unsecured loan may be for a maximum of 50% of the overall project cost and significant private funds or owner equity will be required.

#### **6.5. BUSINESS EXPERIENCE AND MANAGEMENT CAPACITY**

The BA loan applicant will provide resumes and management histories to show the experience of business owners and their management staff in successful operation of the existing business or something comparable. Existing businesses proposing to use CDBG BA funds to create jobs must have an updated business plan at a minimum, if not a new plan.

A comprehensive business plan will be required for BA loan applicants proposing to use CDBG funds for a currently non-operational start-up businesses, or applicants that wish to use CDBG funds to purchase an existing business, or applicants that wish to use CDBG funds for job retention (to keep the business from closing). The comprehensive business plan will include a detailed analysis of what management capacity is needed for the business to be successful and identify resources that the business will utilize to meet the identified capacity needs.

The City may require an applicant to seek business counseling support through the local Small Business Development Corporation or other entity to refine the business plan. At a minimum, the plan must include assessment of the market, including competition, a pro forma outlining the revenues and expenditures, the breakeven, and return on investment (ROI), as well as a set of specific milestones to execute the plan.

### **7. LOAN SERVICING**

#### **7.1. LOAN SERVICING RESPONSIBILITIES**

Lender or Administrator will provide information to the Borrower regarding how the loan will be serviced. The Lender will retain all original project / loan files within locked storage. Original legal documents will be kept in locked fireproof filing system for future loan servicing. Lender or Servicing Agent will provide annual income tax interest statements to the borrower for their tax purposes.

BA loan repayments will be collected by Lender's loan Servicing Agent:

Name: Arcata Economic Development Corporation  
Address: 707 K Street, Eureka CA 95501  
Phone: 707-798-6132  
Email: tracy@aedc1.org

All loan payment will be made directly to the Servicing Agent and deposited into current CDBG PI accounts. When payments are collected by a third-party Servicing Agent, all gross collected CDBG BA loan payments will be provided to the Lender on a quarterly basis for deposit into the proper CDBG program income account.

The borrower may be required to provide periodic business financial statements and proof of insurance annually to the Lender or Servicing Agent. Upon reviewing the

borrower's financial statements, the Lender may require the business to take actions that improve the business cash flows. Borrower may be required to meet with business development staff to assist in stabilizing or building capacity.

Borrower must disclose any sale of equipment or assets that are used as loan security.

If the business is not able to fully service CDBG debt repayments, or if they wish to pre-pay the loan by making one or more larger payments, the borrower may submit a written request to the Lender to change the CDBG loan terms.

## **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. A copy of these adopted loan servicing policies will be provided to each BA loan recipient at loan closing.

## **8. PROGRAM OVERSIGHT BY LENDER**

### **8.1. OVERSIGHT OF PROGRAM ADMINISTRATOR**

The Lender is ultimately the responsible entity for the CDBG BA loan program. Lender will oversee the Administrator and communicate with the loan applicants and borrowers as needed to explain CDBG compliance.

The Administrator is responsible to the Lender and loan applicants to assure that the Program is implemented in compliance with these program guidelines, and state and federal regulations. In addition, Administrator staff will ensure that loan applicant projects are underwritten in a timely and responsible manner. This includes working closely with BA loan applicants to ensure they provide accurate financial statements through documenting BA project compliance for project close-out with Department and HUD. Administrator will review all loan documents with borrowers prior to loan closing.

## **Attachment A**

### **Sample Lender Loan Approval Memo**

**Loan Advisory Committee Report**

Date

Title

**Applicant**

**Business Name**

**Personal Address**

**Business Address**

**Project Description**


**Applicant Meets Basic Program Requirements**

- ☐ Business is Located in Arcata
- ☐ Business is an Eligible Applicant
- ☐ NEPA is Complete
- ☐ Proposed Loan Meets National Objective (Type)
- ☐ Proposed Loan Meets Public Benefit
- ☐ BA Job Creation: Click or tap here to enter text.
- ☐ BA Job Retention: Click or tap here to enter text.
- ☐ Microenterprise: Business has 5 or Fewer Employees Including Owner(s)
- ☐ Microenterprise: All Owners Make < 80% of HUD Median Income
- ☐ Business has UEI and is not Debarred
- ☐ Project Costs are Eligible
- ☐ Business has Business Plan
- ☐ Business has Marketing Plan
- ☐ Financial Projections Prepared
- ☐ Tax Returns are Available and Reviewed
- ☐ Financial Statements are Available and Reviewed
- ☐ Credit Score of 620 or Better
- ☐ Credit Score Less than 620 with Explanations
- ☐ Applicant has Worked or is Working with the SBDC
- ☐ Loan will Stabilize or Grow the Business, Creating Jobs
- ☐ Acceptable Use of Loan Proceeds (Note Proceeds are for Business Use Only)
- ☐ Complete Application Submitted

**Proposed Terms***Loan Amount**Interest Rate**Term**Payment**Collateral**Special**Circumstances*


**The Business**

--

**Loan Purpose**

[In addition to narrative, cut and Paste Special the loan purpose from the Underwriting Worksheet]

**HUD Underwriting Standards**

Project Costs Documented	
Other Sources – Final Commitments	
CDBG Not Substituted for Private	
Financial Feasibility	
Owner ROI is Not Unreasonable	

**Capacity to Service Debt**

[In addition to narrative, cut and Paste Special the projections from the Underwriting Worksheet]

**Applicant Cash Injection into Project**

[In addition to narrative, cut and Paste Special the sources/uses from the Underwriting Worksheet]

**Collateral**

--

**Management**

--

**Strengths**

-

**Weaknesses and Mitigation**

-

**Special Circumstances and Rationale**

**ATTACHMENTS:**

A: Underwriting Worksheet



**Attachment B**

**Lender CDBG Business Assistance  
Loan Agreement**

## BUSINESS LOAN AGREEMENT Attachment B

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
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References in the boxes above are for Lender's use only and do not limit the applicability of this document to any particular loan or item.

Any item above containing "\*\*\*\*" has been omitted due to text length limitations.

<b>Borrower:</b>	<b>Borrower</b>	<b>Lender:</b>	<b>City of Arcata</b>
	<b>DBA: if any</b>		<b>736 F Street</b>
	<b>Address</b>		<b>Arcata, CA 95521</b>
	<b>Arcata, CA 95521</b>		<b>707-822-5951</b>

THIS BUSINESS LOAN AGREEMENT dated Loan Date, is made and executed between Borrower Name ("Borrower") and The City of Arcata ("Lender") on the following terms and conditions. Borrower has received prior commercial loans from Lender or has applied to Lender for a commercial loan or loans or other financial accommodations, including those which may be described on any exhibit or schedule attached to this Agreement. Borrower understands and agrees that: (A) in granting, renewing, or extending any Loan, Lender is relying upon Borrower's representations, warranties, and agreements as set forth in this Agreement; (B) the granting, renewing, or extending of any Loan by Lender at all times shall be subject to Lender's sole judgment and discretion; and (C) all such Loans shall be and remain subject to the terms and conditions of this Agreement.

**TERM.** This Agreement shall be effective as of Loan Date, and shall continue in full force and effect until such time as all of Borrower's Loans in favor of Lender have been paid in full, including principal, interest, costs, expenses, attorneys' fees, and other fees and charges, or until Maturity Date.

**CONDITIONS PRECEDENT TO EACH ADVANCE.** Lender's obligation to make the initial Advance and each subsequent Advance under this Agreement shall be subject to the fulfillment to Lender's satisfaction of all of the conditions set forth in this Agreement and in the Related Documents. **Loan Documents.** Borrower shall provide to Lender the following documents for the Loan: (1) the Note; (2) guaranties; (3) together with all such Related Documents as Lender may require for the Loan; all in form and substance satisfactory to Lender and Lender's counsel.

**Borrower's Authorization.** Borrower shall have provided in form and substance satisfactory to Lender properly certified resolutions, duly authorizing the execution and delivery of this Agreement, the Note and the Related Documents. In addition, Borrower shall have provided such other resolutions, authorizations, documents and instruments as Lender or its counsel, may require.

**Payment of Fees and Expenses.** Borrower shall have paid to Lender all fees, charges, and other expenses which are then due and payable as specified in this Agreement or any Related Document.

**Representations and Warranties.** The representations and warranties set forth in this Agreement, in the Related Documents, and in any document or certificate delivered to Lender under this Agreement are true and correct.

**No Event of Default.** There shall not exist at the time of any Advance a condition which would constitute an Event of Default under this Agreement or under any Related Document.

### CDBG REPRESENTATIONS AND WARRANTIES.

CDBG funds are public monies which require compliance with a number of federal and state laws and regulations. Borrower makes the following representations and warranties regarding meeting CDBG

federal regulations, including (but not limited to) National Objective and Public Benefit requirements; prevailing wage, procurement standards, and Section 3 for construction projects; acquisition and relocation laws; and equal opportunity.

**Fulfillment of CDBG National Objective of Benefit to Low- to Moderate-Income Group.** Borrower agrees that at least 51% of all full-time equivalent jobs retained or created shall be provided to low- to moderate-income individuals who qualify under published CDBG income guidelines. Borrower shall perform any covenant, condition, or agreement set forth herein, including the creation or retention of jobs, making payroll records available for inspection, and making household income certifications available for new or retained employees.

**Fulfillment of CDBG Public Benefit.** Borrower understands and agrees that creation or retention of full-time jobs, as defined by the current CDBG Grants Management Manual, is required to meet the public benefit requirement of one new or retained employee per each \$35,000 in CDBG loan funds provided under this agreement.

**REPRESENTATIONS AND WARRANTIES.** Borrower represents and warrants to Lender, as of the date of this Agreement, as of the date of each disbursement of loan proceeds, as of the date of any renewal, extension or modification of any Loan, and at all times any Indebtedness exists:

**Organization.** Borrower is a Sole Proprietorship for profit which is, and at all times shall be, duly organized, validly existing, and in good standing under and by virtue of the laws of the State of California. Borrower is duly authorized to transact business in all other states in which Borrower is doing business, having obtained all necessary filings, governmental licenses and approvals for each state in which Borrower is doing business. Specifically, Borrower is, and at all times shall be, duly qualified as a foreign corporation in all states in which the failure to so qualify would have a material adverse effect on its business or financial condition. Borrower has the full power and authority to own its properties and to transact the business in which it is presently engaged or presently proposes to engage. Borrower maintains its principal office at: Business Address. Unless Borrower has designated otherwise in writing, this is the principal office at which Borrower keeps its books and records including its records concerning the Collateral. Borrower will notify Lender prior to any change in the location of Borrower's state of organization or any change in Borrower's name. Borrower shall do all things necessary to preserve and to keep in full force and effect its existence, rights and privileges, and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental or quasi-governmental authority or court applicable to Borrower and Borrower's business activities.

**Assumed Business Names.** Borrower has filed or recorded all documents or filings required by law relating to all assumed business names used by Borrower. Excluding the name of Borrower, the following is a complete list of all assumed business names under which Borrower does business:  
Business Name.

**Authorization.** Borrower's execution, delivery, and performance of this Agreement and all the Related Documents have been duly authorized by all necessary action by Borrower and do not conflict with, result in a violation of, or constitute a default under (1) any provision of (a) Borrower's articles of incorporation or organization, or bylaws, or (b) any agreement or other instrument binding upon Borrower or (2) any law, governmental regulation, court decree, or order applicable to Borrower or to Borrower's properties.

**Financial Information.** Each of Borrower's financial statements supplied to Lender truly and completely disclosed Borrower's financial condition as of the date of the statement, and there has been no material adverse change in Borrower's financial condition subsequent to the date of the most recent

financial statement supplied to Lender. Borrower has no material contingent obligations except as disclosed in such financial statements.

**Legal Effect.** This Agreement constitutes, and any instrument or agreement Borrower is required to give under this Agreement when delivered will constitute legal, valid, and binding obligations of Borrower enforceable against Borrower in accordance with their respective terms.

**Properties.** Except as contemplated by this Agreement or as previously disclosed in Borrower's financial statements or in writing to Lender and as accepted by Lender, and except for property tax liens for taxes not presently due and payable, Borrower owns and has good title to all of Borrower's properties free and clear of all Security Interests, and has not executed any security documents or financing statements relating to such properties. All of Borrower's properties are titled in Borrower's legal name, and Borrower has not used or filed a financing statement under any other name for at least the last five (5) years.

**Hazardous Substances.** Except as disclosed to and acknowledged by Lender in writing, Borrower represents and warrants that: (1) During the period of Borrower's ownership of the Collateral, there has been no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance by any person on, under, about or from any of the Collateral. (2) Borrower has no knowledge of, or reason to believe that there has been (a) any breach or violation of any Environmental Laws; (b) any use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Substance on, under, about or from the Collateral by any prior owners or occupants of any of the Collateral; or (c) any actual or threatened litigation or claims of any kind by any person relating to such matters. (3) Neither Borrower nor any tenant, contractor, agent or other authorized user of any of the Collateral shall use, generate, manufacture, store, treat, dispose of or release any Hazardous Substance on, under, about or from any of the Collateral; and any such activity shall be conducted in compliance with all applicable federal, state, and local laws, regulations, and ordinances, including without limitation all Environmental Laws. Borrower authorizes Lender and its agents to enter upon the Collateral to make such inspections and tests as Lender may deem appropriate to determine compliance of the Collateral with this section of the Agreement. Any inspections or tests made by Lender shall be at Borrower's expense and for Lender's purposes only and shall not be construed to create any responsibility or liability on the part of Lender to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the Collateral for hazardous waste and Hazardous Substances. Borrower hereby (1) releases and waives any future claims against Lender for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any such laws, and (2) agrees to indemnify, defend, and hold harmless Lender against any and all claims, losses, liabilities, damages, penalties, and expenses which Lender may directly or indirectly sustain or suffer resulting from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release of a hazardous waste or substance on the Collateral. The provisions of this section of the Agreement, including the obligation to indemnify and defend, shall survive the payment of the Indebtedness and the termination, expiration or satisfaction of this Agreement and shall not be affected by Lender's acquisition of any interest in any of the Collateral, whether by foreclosure or otherwise.

**Litigation and Claims.** No litigation, claim, investigation, administrative proceeding or similar action (including those for unpaid taxes) against Borrower is pending or threatened, and no other event has occurred which may materially adversely affect Borrower's financial condition or properties, other than litigation, claims, or other events, if any, that have been disclosed to and acknowledged by Lender in writing.

**Taxes.** To the best of Borrower's knowledge, all of Borrower's tax returns and reports that are or were required to be filed, have been filed, and all taxes, assessments and other governmental charges have been paid in full, except those presently being or to be contested by Borrower in good faith in the ordinary course of business and for which adequate reserves have been provided.

**Lien Priority.** Unless otherwise previously disclosed to Lender in writing, Borrower has not entered into or granted any Security Agreements, or permitted the filing or attachment of any Security Interests on or affecting any of the Collateral directly or indirectly securing repayment of Borrower's Loan and Note, that would be prior or that may in any way be superior to Lender's Security Interests and rights in and to such Collateral.

**Binding Effect.** This Agreement, the Note, all Security Agreements (if any), and all Related Documents are binding upon the signers thereof, as well as upon their successors, representatives and assigns, and are legally enforceable in accordance with their respective terms.

**AFFIRMATIVE COVENANTS.** Borrower covenants and agrees with Lender that, so long as this Agreement remains in effect, Borrower will:

**Notices of Claims and Litigation.** Promptly inform Lender in writing of (1) all material adverse changes in Borrower's financial condition, and (2) all existing and all threatened litigation, claims, investigations, administrative proceedings or similar actions affecting Borrower or any Guarantor which could materially affect the financial condition of Borrower or the financial condition of any Guarantor.

**Financial Records.** Maintain its books and records in accordance with GAAP, applied on a consistent basis, and permit Lender to examine and audit Borrower's books and records at all reasonable times.

**Financial Statements.** Furnish Lender with the following:

**Annual Statements.** As soon as available, but in no event later than one-hundred-twenty (120) days after the end of each fiscal year, Borrower's balance sheet and income statement for the year ended, prepared by Borrower.

**Interim Statements.** As soon as available, but in no event later than thirty (30) days after the end of each fiscal quarter, Borrower's balance sheet and profit and loss statement for the period ended, prepared by Borrower.

**Tax Returns.** As soon as available, but in no event later than one-hundred-twenty (120) days after the applicable filing date for the tax reporting period ended, Borrower's Federal and other governmental tax returns, prepared by Borrower.

**Additional Requirements.** 180 Days after closing, interim financial statements, prepared by Borrower.

All financial reports required to be provided under this Agreement shall be prepared in accordance with GAAP, applied on a consistent basis, and certified by Borrower as being true and correct.

**Additional Information.** Furnish such additional information and statements, as Lender may request from time to time.

**Insurance.** Maintain fire and other risk insurance, public liability insurance, and such other insurance as Lender may require with respect to Borrower's properties and operations, in form, amounts, coverages and with insurance companies acceptable to Lender. Borrower, upon request of Lender, will deliver to Lender from time to time the policies or certificates of insurance in form satisfactory to Lender, including stipulations that coverages will not be cancelled or diminished without at least ten (10) days prior written notice to Lender. Each insurance policy also shall include an endorsement providing that coverage in favor of Lender will not be impaired in any way by any act, omission or default of Borrower or any other person. In connection with all policies covering assets in which

Lender holds or is offered a security interest for the Loans, Borrower will provide Lender with such lender's loss payable or other endorsements as Lender may require.

**Insurance Reports.** Furnish to Lender, upon request of Lender, reports on each existing insurance policy showing such information as Lender may reasonably request, including without limitation the following: (1) the name of the insurer; (2) the risks insured; (3) the amount of the policy; (4) the properties insured; (5) the then current property values on the basis of which insurance has been obtained, and the manner of determining those values; and (6) the expiration date of the policy. In addition, upon request of Lender (however not more often than annually), Borrower will have an independent appraiser satisfactory to Lender determine, as applicable, the actual cash value or replacement cost of any Collateral. The cost of such appraisal shall be paid by Borrower.

**Guaranties.** Prior to disbursement of any Loan proceeds, furnish executed guaranties of the Loans in favor of Lender, executed by the guarantor named below, on Lender's forms, and in the amount and under the conditions set forth in those guaranties.

<u>Name of Guarantor</u>	<u>Amount</u>
n/a	n/a

**Other Agreements.** Comply with all terms and conditions of all other agreements, whether now or hereafter existing, between Borrower and any other party and notify Lender immediately in writing of any default in connection with any other such agreements.

**Loan Proceeds.** Use all Loan proceeds solely for Borrower's business operations, unless specifically consented to the contrary by Lender in writing.

**Taxes, Charges and Liens.** Pay and discharge when due all of its indebtedness and obligations, including without limitation all assessments, taxes, governmental charges, levies and liens, of every kind and nature, imposed upon Borrower or its properties, income, or profits, prior to the date on which penalties would attach, and all lawful claims that, if unpaid, might become a lien or charge upon any of Borrower's properties, income, or profits. Provided however, Borrower will not be required to pay and discharge any such assessment, tax, charge, levy, lien or claim so long as (1) the legality of the same shall be contested in good faith by appropriate proceedings, and (2) Borrower shall have established on Borrower's books adequate reserves with respect to such contested assessment, tax, charge, levy, lien, or claim in accordance with GAAP.

**Performance.** Perform and comply, in a timely manner, with all terms, conditions, and provisions set forth in this Agreement, in the Related Documents, and in all other instruments and agreements between Borrower and Lender. Borrower shall notify Lender immediately in writing of any default in connection with any agreement.

**Operations.** Maintain executive and management personnel with substantially the same qualifications and experience as the present executive and management personnel; provide written notice to Lender of any change in executive and management personnel; conduct its business affairs in a reasonable and prudent manner.

**Environmental Studies.** Promptly conduct and complete, at Borrower's expense, all such investigations, studies, samplings and testings as may be requested by Lender or any governmental authority relative to any substance, or any waste or by-product of any substance defined as toxic or a hazardous substance under applicable federal, state, or local law, rule, regulation, order or directive, at or affecting any property or any facility owned, leased or used by Borrower.

**Compliance with Governmental Requirements.** Comply with all laws, ordinances, and regulations, now or hereafter in effect, of all governmental authorities applicable to the conduct of Borrower's

properties, businesses and operations, and to the use or occupancy of the Collateral, including without limitation, the Americans with Disabilities Act. Borrower may contest in good faith any such law, ordinance, or regulation and withhold compliance during any proceeding, including appropriate appeals, so long as Borrower has notified Lender in writing prior to doing so and so long as, in Lender's sole opinion, Lender's interests in the Collateral are not jeopardized. Lender may require Borrower to post adequate security or a surety bond, reasonably satisfactory to Lender, to protect Lender's interest.

**Inspection.** Permit employees or agents of Lender at any reasonable time to inspect any and all Collateral for the Loan or Loans and Borrower's other properties and to examine or audit Borrower's books, accounts, and records and to make copies and memoranda of Borrower's books, accounts, and records. If Borrower now or at any time hereafter maintains any records (including without limitation computer generated records and computer software programs for the generation of such records) in the possession of a third party, Borrower, upon request of Lender, shall notify such party to permit Lender free access to such records at all reasonable times and to provide Lender with copies of any records it may request, all at Borrower's expense.

**Environmental Compliance and Reports.** Borrower shall comply in all respects with any and all Environmental Laws; not cause or permit to exist, as a result of an intentional or unintentional action or omission on Borrower's part or on the part of any third party, on property owned and/or occupied by Borrower, any environmental activity where damage may result to the environment, unless such environmental activity is pursuant to and in compliance with the conditions of a permit issued by the appropriate federal, state or local governmental authorities; shall furnish to Lender promptly and in any event within thirty (30) days after receipt thereof a copy of any notice, summons, lien, citation, directive, letter or other communication from any governmental agency or instrumentality concerning any intentional or unintentional action or omission on Borrower's part in connection with any environmental activity whether or not there is damage to the environment and/or other natural resources.

**Additional Assurances.** Make, execute and deliver to Lender such promissory notes, mortgages, deeds of trust, security agreements, assignments, financing statements, instruments, documents and other agreements as Lender or its attorneys may reasonably request to evidence and secure the Loans and to perfect all Security Interests.

**LENDER'S EXPENDITURES.** If any action or proceeding is commenced that would materially affect Lender's interest in the Collateral or if Borrower fails to comply with any provision of this Agreement or any Related Documents, including but not limited to Borrower's failure to discharge or pay when due any amounts Borrower is required to discharge or pay under this Agreement or any Related Documents, Lender on Borrower's behalf may (but shall not be obligated to) take any action that Lender deems appropriate, including but not limited to discharging or paying all taxes, liens, security interests, encumbrances and other claims, at any time levied or placed on any Collateral and paying all costs for insuring, maintaining and preserving any Collateral. All such expenditures incurred or paid by Lender for such purposes will then bear interest at the rate charged under the Note from the date incurred or paid by Lender to the date of repayment by Borrower. All such expenses will become a part of the Indebtedness and, at Lender's option, will (A) be payable on demand; (B) be added to the balance of the Note and be apportioned among and be payable with any installment payments to become due during either (1) the term of any applicable insurance policy; or (2) the remaining term of the Note; or (C) be treated as a balloon payment which will be due and payable at the Note's maturity.

**CESSATION OF ADVANCES.** If Lender has made any commitment to make any Loan to Borrower, whether under this Agreement or under any other agreement, Lender shall have no obligation to make

Loan Advances or to disburse Loan proceeds if: (A) Borrower or any Guarantor is in default under the terms of this Agreement or any of the Related Documents or any other agreement that Borrower or any Guarantor has with Lender; (B) Borrower or any Guarantor dies, becomes incompetent or becomes insolvent, files a petition in bankruptcy or similar proceedings, or is adjudged a bankrupt; (C) there occurs a material adverse change in Borrower's financial condition, in the financial condition of any Guarantor, or in the value of any Collateral securing any Loan; or (D) any Guarantor seeks, claims or otherwise attempts to limit, modify or revoke such Guarantor's guaranty of the Loan or any other loan with Lender; or (E) Lender in good faith deems itself insecure, even though no Event of Default shall have occurred.

**DEFAULT.** Each of the following shall constitute an Event of Default under this Agreement:

**Payment Default.** Borrower fails to make any payment when due under the Loan.

**Other Defaults.** Borrower fails to comply with or to perform any other term, obligation, covenant or condition contained in this Agreement or in any of the Related Documents or to comply with or to perform any term, obligation, covenant or condition contained in any other agreement between Lender and Borrower.

**Default in Favor of Third Parties.** Borrower or any Grantor defaults under any loan, extension of credit, security agreement, purchase or sales agreement, or any other agreement, in favor of any other creditor or person that may materially affect any of Borrower's or any Grantor's property or Borrower's or any Grantor's ability to repay the Loans or perform their respective obligations under this Agreement or any of the Related Documents.

**False Statements.** Any warranty, representation or statement made or furnished to Lender by Borrower or on Borrower's behalf under this Agreement or the Related Documents is false or misleading in any material respect, either now or at the time made or furnished or becomes false or misleading at any time thereafter.

**Insolvency.** The dissolution or termination of Borrower's existence as a going business, the insolvency of Borrower, the appointment of a receiver for any part of Borrower's property, any assignment for the benefit of creditors, any type of creditor workout, or the commencement of any proceeding under any bankruptcy or insolvency laws by or against Borrower.

**Defective Collateralization.** This Agreement or any of the Related Documents ceases to be in full force and effect (including failure of any collateral document to create a valid and perfected security interest or lien) at any time and for any reason.

**Creditor or Forfeiture Proceedings.** Commencement of foreclosure or forfeiture proceedings, whether by judicial proceeding, self-help, repossession or any other method, by any creditor of Borrower or by any governmental agency against any collateral securing the Loan. This includes a garnishment of any of Borrower's accounts, including deposit accounts, with Lender. However, this Event of Default shall not apply if there is a good faith dispute by Borrower as to the validity or reasonableness of the claim which is the basis of the creditor or forfeiture proceeding and if Borrower gives Lender written notice of the creditor or forfeiture proceeding and deposits with Lender monies or a surety bond for the creditor or forfeiture proceeding, in an amount determined by Lender, in its sole discretion, as being an adequate reserve or bond for the dispute.

**Events Affecting Guarantor.** Any of the preceding events occurs with respect to any Guarantor of any of the Indebtedness or any Guarantor dies or becomes incompetent, or revokes or disputes the validity of, or liability under, any Guaranty of the Indebtedness.

**Change in Ownership.** Any change in ownership of twenty-five percent (25%) or more of the common stock of Borrower.



**Adverse Change.** A material adverse change occurs in Borrower's financial condition, or Lender believes the prospect of payment or performance of the Loan is impaired.

**Insecurity.** Lender in good faith believes itself insecure.

**EFFECT OF AN EVENT OF DEFAULT.** If any Event of Default shall occur, except where otherwise provided in this Agreement or the Related Documents, all commitments and obligations of Lender under this Agreement or the Related Documents or any other agreement immediately will terminate (including any obligation to make further Loan Advances or disbursements), and, at Lender's option, all Indebtedness immediately will become due and payable, all without notice of any kind to Borrower, except that in the case of an Event of Default of the type described in the "Insolvency" subsection above, such acceleration shall be automatic and not optional. In addition, Lender shall have all the rights and remedies provided in the Related Documents or available at law, in equity, or otherwise. Except as may be prohibited by applicable law, all of Lender's rights and remedies shall be cumulative and may be exercised singularly or concurrently. Election by Lender to pursue any remedy shall not exclude pursuit of any other remedy, and an election to make expenditures or to take action to perform an obligation of Borrower or of any Grantor shall not affect Lender's right to declare a default and to exercise its rights and remedies.

**EMPLOYMENT CONDITION.** The business will employ one full-time equivalent employee for each \$35,000.00 borrowed or fraction thereof. Borrower will provide Lender with annual verification of the number of employees.

**SITE VISIT.** Lender will perform site inspections annually or as scheduled periodically with Borrower.

**DISBURSEMENT AND ADVANCE PERIOD.** Loan funds must be disbursed within 10 days of signing the Note.

**CITY OF ARCATA PROVISION.** City of Arcata must review financial statements 180 days after closing to approve amortization of outstanding of balance over 60 months.

**MISCELLANEOUS PROVISIONS.** The following miscellaneous provisions are a part of this Agreement:

**Amendments.** This Agreement, together with any Related Documents, constitutes the entire understanding and agreement of the parties as to the matters set forth in this Agreement. No alteration of or amendment to this Agreement shall be effective unless given in writing and signed by the party or parties sought to be charged or bound by the alteration or amendment.

**Attorneys' Fees; Expenses.** Borrower agrees to pay upon demand all of Lender's costs and expenses, including Lender's attorneys' fees and Lender's legal expenses, incurred in connection with the enforcement of this Agreement. Lender may hire or pay someone else to help enforce this Agreement, and Borrower shall pay the costs and expenses of such enforcement. Costs and expenses include Lender's attorneys' fees and legal expenses whether or not there is a lawsuit, including attorneys' fees and legal expenses for bankruptcy proceedings (including efforts to modify or vacate any automatic stay or injunction), appeals, and any anticipated post-judgment collection services. Borrower also shall pay all court costs and such additional fees as may be directed by the court.

**Caption Headings.** Caption headings in this Agreement are for convenience purposes only and are not to be used to interpret or define the provisions of this Agreement.

**Consent to Loan Participation.** Borrower agrees and consents to Lender's sale or transfer, whether now or later, of one or more participation interests in the Loan to one or more purchasers, whether related or unrelated to Lender. Lender may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge Lender may have about

Borrower or about any other matter relating to the Loan, and Borrower hereby waives any rights to privacy Borrower may have with respect to such matters. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower also agrees that the purchasers of any such participation interests will be considered as the absolute owners of such interests in the Loan and will have all the rights granted under the participation agreement or agreements governing the sale of such participation interests. Borrower further waives all rights of offset or counterclaim that it may have now or later against Lender or against any purchaser of such a participation interest and unconditionally agrees that either Lender or such purchaser may enforce Borrower's obligation under the Loan irrespective of the failure or insolvency of any holder of any interest in the Loan. Borrower further agrees that the purchaser of any such participation interests may enforce its interests irrespective of any personal claims or defenses that Borrower may have against Lender.

**Governing Law.** This Agreement will be governed by federal law applicable to Lender and, to the extent not preempted by federal law, the laws of the State of California without regard to its conflicts of law provisions. This Agreement has been accepted by Lender in the State of California.

**Choice of Venue.** If there is a lawsuit, Borrower agrees upon Lender's request to submit to the jurisdiction of the courts of HUMBOLDT County, State of California.

**No Waiver by Lender.** Lender shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by Lender. No delay or omission on the part of Lender in exercising any right shall operate as a waiver of such right or any other right. A waiver by Lender of a provision of this Agreement shall not prejudice or constitute a waiver of Lender's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by Lender, nor any course of dealing between Lender and Borrower, or between Lender and any Grantor, shall constitute a waiver of any of Lender's rights or of any of Borrower's or any Grantor's obligations as to any future transactions. Whenever the consent of Lender is required under this Agreement, the granting of such consent by Lender in any instance shall not constitute continuing consent to subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of Lender.

**Notices.** Any notice required to be given under this Agreement shall be given in writing, and shall be effective when actually delivered, when actually received by telefacsimile (unless otherwise required by law), when deposited with a nationally recognized overnight courier, or, if mailed, when deposited in the United States mail, as first class, certified or registered mail postage prepaid, directed to the addresses shown near the beginning of this Agreement. Any party may change its address for notices under this Agreement by giving formal written notice to the other parties, specifying that the purpose of the notice is to change the party's address. For notice purposes, Borrower agrees to keep Lender informed at all times of Borrower's current address. Unless otherwise provided or required by law, if there is more than one Borrower, any notice given by Lender to any Borrower is deemed to be notice given to all Borrowers.

**Severability.** If a court of competent jurisdiction finds any provision of this Agreement to be illegal, invalid, or unenforceable as to any circumstance, that finding shall not make the offending provision illegal, invalid, or unenforceable as to any other circumstance. If feasible, the offending provision shall be considered modified so that it becomes legal, valid and enforceable. If the offending provision cannot be so modified, it shall be considered deleted from this Agreement. Unless otherwise required by law, the illegality, invalidity, or unenforceability of any provision of this Agreement shall not affect the legality, validity or enforceability of any other provision of this

Agreement.

**Subsidiaries and Affiliates of Borrower.** To the extent the context of any provisions of this Agreement makes it appropriate, including without limitation any representation, warranty or covenant, the word "Borrower" as used in this Agreement shall include all of Borrower's subsidiaries and affiliates. Notwithstanding the foregoing however, under no circumstances shall this Agreement be construed to require Lender to make any Loan or other financial accommodation to any of Borrower's subsidiaries or affiliates.

**Successors and Assigns.** All covenants and agreements by or on behalf of Borrower contained in this Agreement or any Related Documents shall bind Borrower's successors and assigns and shall inure to the benefit of Lender and its successors and assigns. Borrower shall not, however, have the right to assign Borrower's rights under this Agreement or any interest therein, without the prior written consent of Lender.

**Survival of Representations and Warranties.** Borrower understands and agrees that in making the Loan, Lender is relying on all representations, warranties, and covenants made by Borrower in this Agreement or in any certificate or other instrument delivered by Borrower to Lender under this Agreement or the Related Documents. Borrower further agrees that regardless of any investigation made by Lender, all such representations, warranties and covenants will survive the making of the Loan and delivery to Lender of the Related Documents, shall be continuing in nature, and shall remain in full force and effect until such time as Borrower's Indebtedness shall be paid in full, or until this Agreement shall be terminated in the manner provided above, whichever is the last to occur.

**Time is of the Essence.** Time is of the essence in the performance of this Agreement.

**DEFINITIONS.** The following capitalized words and terms shall have the following meanings when used in this Agreement. Unless specifically stated to the contrary, all references to dollar amounts shall mean amounts in lawful money of the United States of America. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require. Words and terms not otherwise defined in this Agreement shall have the meanings attributed to such terms in the Uniform Commercial Code. Accounting words and terms not otherwise defined in this Agreement shall have the meanings assigned to them in accordance with generally accepted accounting principles as in effect on the date of this Agreement:

**Advance.** The word "Advance" means a disbursement of Loan funds made, or to be made, to Borrower or on Borrower's behalf on a line of credit or multiple advance basis under the terms and conditions of this Agreement.

**Agreement.** The word "Agreement" means this Business Loan Agreement, as this Business Loan Agreement may be amended or modified from time to time, together with all exhibits and schedules attached to this Business Loan Agreement from time to time.

**Borrower.** The word "Borrower" means **Borrower Name** and includes all co-signers and co-makers signing the Note and all their successors and assigns.

**Collateral.** The word "Collateral" means all property and assets granted as collateral security for a Loan, whether real or personal property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, collateral mortgage, deed of trust, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien, charge, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise.

**Environmental Laws.** The words "Environmental Laws" mean any and all state, federal and local

statutes, regulations and ordinances relating to the protection of human health or the environment, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. Section 9601, et seq. ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901, et seq., Chapters 6.5 through 7.7 of Division 20 of the California Health and Safety Code, Section 25100, et seq., or other applicable state or federal laws, rules, or regulations adopted pursuant thereto.

**Event of Default.** The words "Event of Default" mean any of the events of default set forth in this Agreement in the default section of this Agreement.

**GAAP.** The word "GAAP" means generally accepted accounting principles.

**Grantor.** The word "Grantor" means each and all of the persons or entities granting a Security Interest in any Collateral for the Loan, including without limitation all Borrowers granting such a Security Interest.

**Guarantor.** The word "Guarantor" means any guarantor, surety, or accommodation party of any or all of the Loan.

**Guaranty.** The word "Guaranty" means the guaranty from Guarantor to Lender, including without limitation a guaranty of all or part of the Note.

**Hazardous Substances.** The words "Hazardous Substances" mean materials that, because of their quantity, concentration or physical, chemical or infectious characteristics, may cause or pose a present or potential hazard to human health or the environment when improperly used, treated, stored, disposed of, generated, manufactured, transported or otherwise handled. The words "Hazardous Substances" are used in their very broadest sense and include without limitation any and all hazardous or toxic substances, materials or waste as defined by or listed under the Environmental Laws. The term "Hazardous Substances" also includes, without limitation, petroleum and petroleum by-products or any fraction thereof and asbestos.

**Indebtedness.** The word "Indebtedness" means the indebtedness evidenced by the Note or Related Documents, including all principal and interest together with all other indebtedness and costs and expenses for which Borrower is responsible under this Agreement or under any of the Related Documents.

**Lender.** The word "Lender" means The City of Arcata, its successors and assigns.

**Loan.** The word "Loan" means any and all loans and financial accommodations from Lender to Borrower whether now or hereafter existing, and however evidenced, including without limitation those loans and financial accommodations described herein or described on any exhibit or schedule attached to this Agreement from time to time.

**Note.** The word "Note" means the Note dated Loan Date and executed by Borrower Name in the principal amount of \$Loan Amount, together with all renewals of, extensions of, modifications of, refinancings of, consolidations of, and substitutions for the note or credit agreement.

**Related Documents.** The words "Related Documents" mean all promissory notes, credit agreements, loan agreements, environmental agreements, guaranties, security agreements, mortgages, deeds of trust, security deeds, collateral mortgages, and all other instruments, agreements and documents, whether now or hereafter existing, executed in connection with the Loan.

**Security Agreement.** The words "Security Agreement" mean and include without limitation any

agreements, promises, covenants, arrangements, understandings or other agreements, whether created by law, contract, or otherwise, evidencing, governing, representing, or creating a Security Interest.

**Security Interest.** The words "Security Interest" mean, without limitation, any and all types of collateral security, present and future, whether in the form of a lien, charge, encumbrance, mortgage, deed of trust, security deed, assignment, pledge, crop pledge, chattel mortgage, collateral chattel mortgage, chattel trust, factor's lien, equipment trust, conditional sale, trust receipt, lien or title retention contract, lease or consignment intended as a security device, or any other security or lien interest whatsoever whether created by law, contract, or otherwise.

*// Acknowledgement and Signature Page Follows //*

**BORROWER ACKNOWLEDGES HAVING READ ALL THE PROVISIONS OF THIS BUSINESS LOAN AGREEMENT  
AND BORROWER AGREES TO ITS TERMS. THIS BUSINESS LOAN AGREEMENT IS DATED Loan Date.**

**BORROWER: Borrower Name**

**By:**  
**Name:**  
**Title:**

---

**LENDER: City of Arcata**

**By:**  
**Name:** Arcata Economic Development Corporation  
Servicing Agent for the City of Arcata

**Attachment C**  
**Lender Required**  
**Documents**



## Business Loan Application

Name of Business		Name of Primary Contact		
Physical Business Address				
Business Mailing Address (if different)				
Business Phone	Primary Contact Phone	Primary Contact Email		
Federal Employer ID #	Name of Insurance Company	DUNS		
Business Organization:	Sole Proprietorship	Corporation	LLC	Partnership Non-Profit
Owner Names(s) and Information				
Name	Address	Phone	Email	Ownership %
Any Affiliates or Subsidiaries?	Yes No (If yes, we will request additional information later)			
Type of Business				
Loan Amount Requested				
Describe How Funds Will be Used (describe, and enter estimated amounts)				
Purchase Inventory		Working Capital		
Leasehold Improvements		Purchase Equipment		

<b>Business Credit Report:</b>	By signing below you authorize the City of Arcata to obtain a business credit report.
--------------------------------	---

**Certification and Authorized Signature(s):**

*I hereby certify under the penalty of perjury that all the information contained in the CDBG request for funding (including all supporting documentation) is true and correct. I understand and acknowledge that making false statements on this document and any documents submitted in support of it, is a crime under federal and California state laws, which may result in criminal prosecution.*

\_\_\_\_\_  
Name (Print)\_\_\_\_\_  
Signature\_\_\_\_\_  
Date\_\_\_\_\_  
Name (Print)\_\_\_\_\_  
Signature\_\_\_\_\_  
Date**City of Arcata, Community Development Department**

736 F Street, Arcata CA 95521

707-822-5955





## Sources and Uses

List ALL Sources of funding and all Uses of funding.

Sources	
Proposed CDBG Loan	
TOTAL	

Uses	
TOTAL	

### Documentation for Uses of Funds

- Provide third-party cost proposals for inventory and asset purchases.
- Provide salary schedules, rental agreement, and accounts payable invoices.

### Profit and Loss Projections

#### Cash Flow Projections

Projections are necessary to evaluate the loan proposal. You may use your own form, or our model spreadsheets, which may be found at <https://ca-arcata.civicplus.com/188/Economic-Development> under "How to Apply".



## Business Debt Schedule

Date \_\_\_\_\_

*Date should be the same as the current business financial statement*

*Loan balances and total payments should agree with the current business financial statement*

CREDITOR NAME	ORIGINAL AMOUNT	ORIGINAL DATE	CURRENT BALANCE	RATE	MATURITY DATE	MONTHLY PAYMENT	COLLATERAL	CURRENT?
		<b>TOTAL BALANCE</b>			<b>TOTAL PAYMENTS</b>			

\_\_\_\_\_  
Name (Print)

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Name (Print)

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

**City of Arcata, Community Development Department**

736 F Street, Arcata CA 95521

707-822-5955



## Personal Financial Statement

<b>Name(s)</b>	<b>Phone</b>	<b>Email</b>
<b>Residence Address</b>		
<b>Name of Business Loan Applicant</b>		

ASSETS	
Cash	
Savings	
Retirement	
Life Insurance – Surrender Value <sup>1</sup>	
Accounts/Notes Receivable	
Stocks/Bonds <sup>2</sup>	
Real Estate <sup>3</sup>	
Autos	
Other Assets <sup>4</sup>	
<b>TOTAL ASSETS</b>	

LIABILITIES	
Accounts Payable	
Notes to Banks/Others <sup>5</sup>	
Loan on Life Insurance	
Mortgages on Real Estate <sup>3</sup>	
Other Liabilities <sup>6</sup>	
<b>TOTAL LIABILITIES</b>	

<b>NET WORTH</b>	
------------------	--

<sup>1</sup> Life Insurance Held	Face Amount	Cash Surrender	Company	Beneficiary
<sup>2</sup> Stocks / Bonds	# Shares	Name	Cost	Total Value
<sup>3</sup> Real Estate <i>List each property separately. Add attachments as needed.</i>				
	Property A	Property B	Property C	
Type				
Address				
Date Purchased				
Original Cost				
Current Market Value				
Mortgage Holder Name				
Mortgage Balance				
Monthly Payment				
Mortgage Status				
<sup>4</sup> Other Assets	Type of Asset	Value	Pledged?	

<sup>5</sup> Notes to Others	Noteholder Name	Original Balance	Current Balance	Payment	Secured?

<sup>6</sup> Other Liabilities Describe other liabilities below

Income	
Salary	
Net Investment Income	
Business Income	
Other Income <sup>1</sup>	
TOTAL INCOME	

Contingent Liabilities	
As Endorser / Comaker	
Legal Claims / Judgements	
Provision for Taxes	
Other Special Debt	

<sup>1</sup> Other Income. Describe below

Other Business Ownership. List other businesses where you have a ≥20% interest

Additional Questions. If the answer to any is yes, please attach a written explanation					
Have you ever declared personal bankruptcy?		Yes	No	If Yes, provide information below	
Chapter Filed	Date Filed	Case Number	Status		
			Dismissed	Payment Plan	Discharged Pending
Have you experienced foreclosure, repossession, judgement, or criminal penalty in the last 7 years?					Y N
Are any legal actions (claims, lawsuits, etc.) pending against you?			Y	N	

I authorize the City of Arcata and/or its servicer to make inquiries as necessary to verify the accuracy of my statements. I certify this information and information in any attachments is true and accurate as of the stated date. The statements are made for the purpose of obtaining a loan or guaranteeing a loan. I understand false statements may result in forfeiture of benefits and possible prosecution by the U.S. Attorney General (Reference 18 U.S.C. 1001).

_____	_____	_____	_____
Print Name	Signature	Social Security #	Date
_____	_____	_____	_____
Print Name	Signature	Social Security #	Date



## Personal Budget Information

**Borrower Name**

<b>Income</b>	Monthly
Gross Salary:	
Gross Salary:	
Owner Business Draw	
Rental Income	
Interest/Dividend Income	
Other Income:	
Other Income:	
TOTAL MONTHLY INCOME	
<b>Expenses</b>	Monthly
Mortgage / Rent	
Auto(s)	
Other Installment Payments	
Credit Cards	
Credit Line	
Utilities	
Insurance	
Child Care	
Contingent Liabilities	
Other Expense:	
Other Expense:	
TOTAL MONTHLY EXPENSES	

I/We hereby certify that the above information is valid and correct to the best of my/our knowledge.

\_\_\_\_\_  
Name (Print)

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Name (Print)

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

**City of Arcata, Community Development Department**

736 F Street, Arcata CA 95521

707-822-5955



## Management Resumé

<b>Name</b>		<b>Date of Birth</b>		<b>Place of Birth</b>	
<b>Phone</b>		<b>Email</b>			
<b>Residence Address</b>					
				From:	To:
<b>Previous Address</b>					
				From:	To:
<b>Employed by US Government?</b>		Yes      No		Agency	
<b>US Citizen?</b>	Yes      No		If no, Alien Registration Number:		
<b>Education</b>					
<b>College/Technical Training (Name/Location)</b>		<b>Dates</b>	<b>Major</b>	<b>Degree/Certificate</b>	
<b>Military Service</b>	Yes      No	Branch:		From:	To:
<b>Employment Experience</b>					
Company Name and Location:					
From:		To:		Title	
Duties:					
Company Name and Location					
From:		To:		Title	
Duties:					
Company Name and Location					
From:		To:		Title	
Duties:					
<b>Additional Pertinent Experience:</b>					

Signature

Date

**City of Arcata, Community Development Department**

736 F Street, Arcata CA 95521

707-822-5955



## Authorization for Credit File Disclosure

I hereby authorize **City of Arcata** to obtain a consumer credit and/or investigative report from Contemporary Information Corporation (CIC) on myself. I understand that such information may be derived in whole or in part from Experian, Equifax, and/or CIC.

---

Signature

Date

---

Full Name (Print)

---

Home Address

---

City

State

Zip

---

Social Security #

Driver's License or ID Number

Date of Birth



## Business Asset Schedule

Date \_\_\_\_\_

*Please list all assets, values, and whether they are pledged as collateral for another loan*

	Asset	Estimated Value	Amount of Loan Secured by Asset	Lienholder
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				



Month 1      Month 2      Month 3      Month 4      Month 5      Month 6      Month 7      Month 8      Month 9      Month 10      Month 11      Month 12      Annualized

Month 1      Month 2      Month 3      Month 4      Month 5      Month 6      Month 7      Month 8      Month 9      Month 10      Month 11      Month 12      Annualized

Month 1   Month 2   Month 3   Month 4   Month 5   Month 6   Month 7   Month 8   Month 9   Month 10   Month 11   Month 12   Annualized

[illegible]

## Attachment C - 2

### Jobs Tracking Form - PROPOSED Project

Company Name **Sample Business**

List existing employees and proposed new positions

Job Creation Project ☐ Job Retention ☒

Income Limits Date: 6/15/2023

Name / Job Position	New, Existing, or Retained Job	Annual Hours	Annual Wage Range	Full / Part Time	LMI	Date of Hire
1 Sample	Retained	2160	50% \$19,801 to \$33,000	Full Time	Yes	NA
2 Sample 2	Retained	630	50% \$17,351 to \$28,900	Part Time	Yes	NA
3 Sample 3	Retained	150	30% \$0 to \$26,750	Ineligible	Yes	NA
4 Sample 4		2600	80%	Full Time	No	NA
5				Ineligible		
6				Ineligible		
7				Ineligible		
8				Ineligible		
9				Ineligible		
10				Ineligible		
11				Ineligible		
12				Ineligible		
13				Ineligible		
14				Ineligible		
15				Ineligible		
16				Ineligible		
17				Ineligible		
18				Ineligible		
19				Ineligible		
20				Ineligible		
21				Ineligible		
22				Ineligible		
23				Ineligible		
24				Ineligible		
25				Ineligible		
26				Ineligible		
27				Ineligible		
28				Ineligible		
29				Ineligible		
30				Ineligible		

Full and Part Time Positions		LMJ	% LMJ	Total Employees
Total Full Time	2	1		4
Total Part Time	1	1		
Grand Total Full Time	2.5	2		
<b>Rounded Per CDBG</b>	<b>2</b>	<b>1</b>	<b>25.00%</b>	



## Attachment C - 4

## CDBG FUNDING DISBURSEMENTS FOR ECONOMIC DEVELOPMENT PROJECT WITH CDBG FUNDING

## ACTUAL CDBG DISBURSEMENTS

Date of Loan Application:

Date of Loan Approval:

Date of NEPA Completion:

Date of Borrower's Project Cost	Description of Eligible CDBG Project Cost	Amount	Date of Lender's Check	Date of CDBG Reimb.
<b>Total Loan</b>		\$0		

I hereby certify under the penalty of perjury that all the information contained in this form (including all supportive documentation) is true and correct. I understand and acknowledge that making false statement on this certification, including any documents submitted in support of it, may repayment of loan funds.

Signature of Business Owner: \_\_\_\_\_

Date:

Signature of Jurisdiction Staff:

Date:

**BORROWER CERTIFICATION OF NO CONFLICT OF INTEREST  
IN RECEIVING COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)**

City of Arcata, hereafter called Grantee, will use federal CDBG funds to provide financial assistance to eligible program participants, hereafter called Participants. These CDBG funds are administered by the State Department of Housing and Community Development hereafter called Department. As part of receiving CDBG funds from the Department, the Grantee is required to ensure there is no conflict of interest created when using these funds on eligible CDBG activities. As such, all Participants must certify that no conflict of interest has been created.

**State Conflict of Interest:** Pursuant to California Government Code 87100, et seq. CDBG financial assistance is not available if there is a conflict of interest. Any person / business loan participant that is an employee of the Grantee, an elected official, or consultant involved in administering a business assistance activity would not be eligible to receive CDBG funds due to a conflict of interest. If there is a real or perceived conflict of interest, the Grantee must have a legal determination that will be placed in the Participant's file.

**Federal Conflict of Interest:** Pursuant to the Code of Federal Regulations, Section 24 CFR 570.489 (h) a conflict of interest is not allowed when using CDBG funds as follows:

**Conflicts prohibited.** Except for eligible administrative or personnel costs, the general rule is that no persons described in paragraph (h)(3) of this section who exercise or have exercised any functions or responsibilities with respect to CDBG activities assisted under this subpart or who are in a position to participate in a decision-making process or gain inside information with regard to such activities, may obtain a financial interest or benefit from the activity, or have an interest or benefit from the activity, or have an interest in any contract, subcontract or agreement with respect thereto, or the proceeds thereunder, either for themselves or those with whom they have family or business ties, during their tenure or for one year thereafter.

**Persons covered.** The conflict of interest provisions for paragraph (h)(2) of this section apply to any person who is an employee, agent, consultant, officer, elected official or appointed official of the state, or of a unit of general local government, or of any designated public agencies, or subrecipients which are receiving CDBG funds.

If there is a real or perceived conflict of interest relative to the federal language above, the Grantee must submit a request to the Department for an exception to the Conflict of Interest determination. The Department will render a written decision that will be placed in the Participant's file.

**By signing below, I certify that no conflict of interest, as prohibited by California Government Code Section 87100 et seq. and/or by the Code of Federal Regulations Section 24 CFR 489 (h), is created.**

\_\_\_\_\_  
Signature of Borrower

\_\_\_\_\_  
Date

\_\_\_\_\_  
Enter Name and Title

\_\_\_\_\_  
Signature of Borrower

\_\_\_\_\_  
Date

\_\_\_\_\_  
Enter Name and Title

**BORROWER'S CERTIFICATION CONCERNING NO JOB PRIATING  
IN CONNECTION WITH COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)  
ECONOMIC DEVELOPMENT (ED) FINANCING**

City of Arcata use federal CDBG economic development funds to make loans to eligible projects. These federal funds are available from local program income funds or from grant contracts issued by the State Department of Housing and Community Development. These CDBG ED loans are not eligible if their use supports job pirating. Job pirating is not allowed under 24 CFR 570.482(f) of federal regulations. CDBG ED activities trigger this prohibition of funds as follows:

1. Statement of Job Pirating Provisions:

Use of CDBG funds, to assist directly, the relocation of any industrial or commercial plant, facility or operations, from one labor market area to another labor market area.

☐ Yes   ☐ No

If yes, what is the total number of jobs to be relocated: Click or tap here to enter text.

2. Certification of no Job Pirating:

Will a significant loss of jobs take place due to the relocation of the business operations (Definition of significant is 25 or more full time positions.).

☐ Yes   ☐ No

If yes, CDBG assistance is prohibited.

If no, business certifies that neither it nor any of its subsidiaries has plans to relocate jobs, as of the date of the CDBG loan agreement.

3. Consequences of Job Pirating Violation:

Use of CDBG funds, to assist directly, the relocation of any industrial or commercial plant, facility or operations, from one labor market area to another labor market area will result in the repayment of all CDBG funding invested in the project.

**I hereby certify** under the penalty of perjury that all the information contained in the CDBG request for funding (including all supporting documentation) is true and correct. I understand and acknowledge that making false statement on this certification, including any documents submitted in support of it, is a crime under federal and California state laws, which may result in criminal prosecution.

\_\_\_\_\_  
Signature of Borrower

\_\_\_\_\_  
Date

\_\_\_\_\_  
Enter Name and Title

\_\_\_\_\_  
Signature of Borrower

\_\_\_\_\_  
Date

\_\_\_\_\_  
Enter Name and Title

**BORROWER'S CERTIFICATION OF COMPLIANCE WITH FEDERAL OVERLAYS  
RELATED TO COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)  
ECONOMIC DEVELOPMENT (ED) FINANCING**

City of Arcata, hereafter referred to as Responsible Entity (RE), is being requested to use federal CDBG ED funds for a project located at: [Click or tap here to enter text.](#), Arcata, CA 95521. The RE received a CDBG application for funding from the Business Assistance (BA) loan applicant on [Click or tap here to enter text.](#).

There are three (3) significant federal overlay laws that must be adhered to as part of receiving CDBG ED BA funding: 1) federal environmental regulations; 2) federal relocation and real property acquisition laws; and 3) federal prevailing wage laws. All projects proposing to use CDBG federal funding must be documented as being in compliance with these laws.

**ENVIRONMENTAL REVIEW:** To be in compliance with federal environmental review law, National Environmental Policy Act (NEPA), an Environmental Review Record (ERR) must be completed and executed by the RE prior to awarding the project any CDBG funds. The ERR must also be completed prior to any additional work being done on the project after the date of application submittal, as shown above.

Any site work or legal agreements associated with the project, after the date of the CDBG application, could trigger a "choice limiting" action under NEPA regulations. Such an action will prohibit the RE from awarding CDBG funds to the project. Specific choice limiting actions to be avoided by the applicant after BA application date are: 1) signing any contracts for any work on the project; 2) signing any real property purchase agreements or leases; 3) conducting any construction / maintenance work at the site.

Loan applicant does hereby acknowledge and certify that there is and will be no choice limiting actions taking place at the site until the RE has completed an ERR for the project. Applicant agrees to disclose the existing conditions of the project and will not proceed with any development work until such time as the RE has provided written permission to do so.

1. Statement of Project's Site Control.

Full site control, i.e. fee simple interest ownership of the property **or** executed lease agreement, was in place prior to BA loan application submittal date.

☐ Yes ☐ No

If no, what is proposed date will site control to be in place: [Click or tap here to enter text.](#).

2. Statement of Project's Construction Status.

Construction was started on the project prior to BA loan application submittal date stated above.

☐ Yes ☐ No

If yes, construction must stop at the date of application, or CDBG is prohibited.

If no, business certifies NO construction contracts will be executed and no work at the site will start until RE provides written approval.

3. Consequences of Choice Limiting Action.

Any changes which trigger NEPA violation will force the RE to cancel the application.



**RELOCATION AND ACQUISITION REVIEW:** To be in compliance with federal acquisition and relocation law, the RE must verify that no “persons” have been displaced because of the use of CDBG funding AND that if CDBG funds are being used, in whole or in part to acquire real property, that federal laws are being complied with prior to award of funds.

Projects using CDBG funding for acquisition of real property are required to provide the seller with a proper disclosure of no use of eminent domain as part of the transaction.

Projects using CDBG funding that cause a person (resident of a housing unit, business or non-profit) to move as a direct result of the project’s activity must follow federal relocation process and provide those affected persons with permanent relocation benefits.

1. Statement of Project’s Use of Funds for Acquisition.

CDBG funds are being used to assist in purchase of real property.

☐ Yes ☐ No

If yes, what date was seller provided Acquisition Notice? [Click or tap here to enter text.](#)

2. Statement of Project’s Relocation Compliance.

Persons were or will be displaced because of the proposed CDBG funding project activity / scope of work.

☐ Yes ☐ No

If yes, RE must evaluate relocation benefits required for the project to move forward and disclose the costs of the relocation to the BA applicant.

If no, business certifies NO persons are displaced by the project.

3. Consequences of Non-Compliance with Relocation or Acquisition Laws.

Any misrepresentations that result in these federal laws being triggered will force the RE to cancel the application.

Loan applicant does hereby acknowledge and certify that there will be no relocation of persons taking place at the site until the RE has completed its review and analysis of any required relocation benefits. Applicant agrees to disclose the existing conditions of the project and will not proceed with any property purchase or development work until such time as the RE has provided written permission to do so.

**FEDERAL PREVAILING WAGE REVIEW:** To be in compliance with federal prevailing wage laws (Davis Bacon and associated legislation), the RE must verify that no CDBG funds are being utilized for project construction costs. If any CDBG funds are used for construction, then RE must ensure federal prevailing wage rates will be paid by contractors. These wages will increase the project’s costs.

1. Statement of Project’s Use of Funds for Construction.

CDBG funds will pay for project construction costs.

☐ Yes ☐ No

If yes, what date was RE labor standards monitoring certification submitted to the Department? [Click or tap here to enter text.](#)

If no, federal prevailing wage compliance is not required.

2. Consequences of Non-Compliance with Davis Bacon and Related Acts.

Any misrepresentations that result in these federal laws being triggered can require the RE to pay wage compensation to workers doing the construction.

Loan applicant does hereby acknowledge and certify that there will be no signing of construction contracts for any work taking place at the project site until the RE has completed its review and analysis of required labor standards compliance. Applicant agrees to disclose the existing conditions of the project and will not proceed with any property development work until such time as the RE has provided written permission to do so.

**I hereby certify** under the penalty of perjury that all the information contained in the CDBG request for funding (including all supporting documentation) is true and correct. I understand and acknowledge that making false statement on this certification, including any documents submitted in support of it, is a crime under federal and California state laws, which may result in criminal prosecution.

---

Signature of Borrower

---

Date

---

Enter Name and Title

---

Signature of Borrower

---

Date

---

Enter Name and Title

## **Attachment D**

# **Lender Adopted Business Loan Servicing Policies**

### Administrative Contractor Contact

Company: Arcata Economic Development Corporation Address:  
100 Ericson Court, Suite 100, Arcata CA 95521  
Phone Number: 707-822-4616

### Adopted Business Loan Servicing Guidelines

A complete loan file shall be maintained for each applicant and each approved loan. The file shall contain all legal documents, including loan documents, collateral documents, and insurance. The file shall also contain the day-to-day administrative records of the loan, financial statements and loan report, and all documentation required for CDBG compliance. Administrative Contractor shall maintain records of all borrower reporting and loan monitoring requirements.

**File:** At a minimum the file shall include:

- A. Note
- B. Loan Agreement, including Non-Financial Employment Plan
- C. Mortgage
- D. General Security Agreement
- E. Personal Guaranty
- F. Corporate Guaranty
- G. Subordination Agreement
- H. Hazard Insurance Policy and Assignment, and renewals
- I. Documentation of National Objective and Public Benefit (TIG, job creation, slums and blight)
- J. Project Sources and Uses
- K. NEPA and other Federal Overlay requirements
- L. Loan Underwriting
- M. Application form,
- N. Business financial statements and/or tax returns
- O. Personal financial statements and/or tax returns
- P. Credit report
- Q. Resume of principals
- R. Release of information form
- S. Collateral review
- T. Loan Committee Report
- U. Disbursements (copies of all requests and actual disbursements)
- V. Current financial statements as they are collected.

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

- A. Quarterly and annual profit and loss statements within 60 days of the close of the quarter
- B. Annual balance sheet within 60 days of the close of calendar or fiscal year
- C. Summary of any substantial changes in the business operation
- D. Proof of fire and liability insurance
- E. Proof of all business taxes paid on a current basis

- F. Annual copies of personal and business tax returns
- G. Current number of employees on a quarterly basis
- H. Other documents which may be relevant to the financial viability of the RLF loan.

The AC 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 AC shall meet and make arrangements with the Borrowers to come into compliance. If the Borrower refuses to meet or arrangements cannot 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 and written notification by the AC 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.

**Quarterly Reports:** A quarterly RLF report for each loan and the loan portfolio as a whole shall be submitted to the City within 15 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 AC shall be responsible for preparation of this report. The report will be used by the AC 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 loan balances, principal and interest recaptured during the quarter, disbursements made during the quarter. 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.

**Loan Status Report:** Annually, or more often as needed or requested, AC shall provide City Staff with a summary of the Borrower Reporting requirements outlined in Section 8.3 of this policy. This status report for each project includes the dates for receipt of financial statements, employment information, review dates, insurance renewal, and other key dates.

**Employment Report:** Quarterly, during the hiring/expansion period of each loan, AC shall provide to City Staff a report on each project detailing the jobs created/retained, and those hired that meet the targeted income group criteria. The hiring/expansion phase of the loan typically is the first 24 months, but will be specified in the Loan Agreement.