

Guidelines for Microenterprise Financial Assistance Program

Operated By
City of Arcata

with

Community Development Block Grant
(CDBG) Funding

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HCD Approved: _____

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ATTACHMENT A: City's Executed Resolution Adopting Guidelines

ATTACHMENT B: Microenterprise Financial Assistance Application Forms

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COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) MICROENTERPRISE FINANCIAL ASSISTANCE PROGRAM GUIDELINES

1. INTRODUCTION

The City of Arcata ("City" or "Program Operator" or "Administrator") has established a Microenterprise Financial Assistance Program ("Program"). These Microenterprise Financial Assistance Program Guidelines ("Guidelines") describe the implementation of the Program.

The Program is designed to stimulate economic growth by assisting startup and existing small businesses expand. The Program provides affordable financing and/or grants to eligible for-profit businesses that may not satisfy conventional loan underwriting standards. The Program loan and grant terms are flexible and can be tailored to the needs of the business. These Guidelines were adopted by the City Council by formal resolution (Attachment A) and approved by the California Department of Housing and Community Development ("Department").

The Program funds grants up to \$10,000.00 and low-interest rate loans up to \$50,000.00. Funding is on a first-come, first-served basis and is available when Program funds are available.

2. MICROENTERPRISE FINANCIAL ASSISTANCE PROGRAM OVERVIEW

2.1. PROGRAM ADMINISTRATION

The City may operate the Program in conjunction with a contracted loan servicer. The City will function as the Program Operator and will be responsible for the majority of the administrative functions, all programmatic decisions, and disbursements of Microenterprise grants. The City's loan servicing agent will primarily bear the responsibility of disbursing loan funds and servicing Microenterprise loans, including collecting payments. The following list of roles and responsibilities is not exhaustive but establishes the primary duties of the Program Operator and the Loan Servicing Agent.

Program Operator (City)

The Program Operator will:

- Originate Microenterprise Financial Assistance (MFA) loans and/or grants
- Market the Program
- Accept and process applications
- Complete 24 Code of Federal Regulations Part 5 Income.
- Manage eligibility qualification and document the eligibility of business owners and/or employees by:
 - Underwriting and recommending approval of loans and grants
 - Ensuring a timely loan closing and disbursement of funds
 - Maintaining loan files and fiscal records

- Administering state grants and Program Income used to fund this Program
- Working with Program participants to ensure compliance with Program Guidelines
- Obtaining approval through the Program's Loan Advisory Committee (LAC)
- Disbursing loan or grant funds according to loan or grant terms.

City staff will serve as the primary contact with the Department. The City will follow these adopted program guidelines. The Community Development Director may interpret any provision of these Guidelines and prepare a memorandum clarifying the guidelines, a checklist to implement the guidelines, or handouts to explain the guidelines.

Loan Advisory Committee

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.

Loan Advisory Committee meetings will be scheduled by Lender staff in conjunction with Administrator staff once a loan or grant have been underwritten and are ready for review and approval. Lender staff will be responsible for reviewing each application funding proposal and recommending approval or rejection for the loan or grant. Committee members may request additional information and or attach contingencies on closing or funding of the loan or grant. If approved, then the project can move forward with loan closing.

If Lender approval is not obtained, then the Microenterprise loan applicant can take dispute resolution actions, per Section 4.6 of these guidelines.

Loan Servicing Agent

The Loan Servicing Agent will:

- Prepare and manage execution of all loan and security documents
- Record security documents for the Program Operator as required
- Disburse loan funds according to loan terms
- Assist with underwriting on an as-needed basis
- Establish loan servicing accounts for collection and accounting
- Collect payments, monitor insurance requirements, track and calculate current balances, prepare payoff statements, and other core loan servicing duties
- Provide all loan payments and payoffs to the City on a quarterly basis
- Provide quarterly statements for each loan
- Undertake loan collections, including asset liquidation

The City will follow its CDBG approved procurement process to obtain a Loan Servicing Agent who is qualified and experienced in servicing microenterprise business loans, as well as at least five years' CDBG business loan experience.

2.2. PROGRAM SERVICE AREA

Financing under the Program is available to all eligible businesses or persons located in the City's jurisdictional limits. Funds may not be provided to Program participants outside of City's jurisdiction without Department written approval.

2.3. FUNDING SOURCE FOR LOANS AND GRANTS

The Program is funded by CDBG grants and/or CDBG Program Income ("PI"). Grant funds are administered according to a grant's Standard Agreement, and PI funds administered by the City. All funds used for the Program are originally sourced from HUD, and federal requirements and overlays apply.

3. CDBG PROGRAM REQUIREMENTS

3.1. ELIGIBLE PROGRAM APPLICANTS

An eligible applicant must meet the following primary eligibility criteria:

- Applicant is the owner of a business located in the City of Arcata
- The business has five or fewer employees, including the owner(s)
- All owners must be income eligible.

A microenterprise is a commercial enterprise that has five or fewer employees, one or more of whom owns the enterprise. The Program application and checklists will document a business's eligibility (Attachment B).

Additional Eligibility Requirements:

An eligible microenterprise may be either an established business or a start-up; however, eligible businesses must meet all of the additional eligibility requirements along with primary eligibility requirement stated above. The City may authorize a special circumstance request as outlined in Section 4.7, if the business does not meet any of the following requirements. The LAC should be more flexible with grants than with loans in their application of special circumstances approvals. The intent of this guidance is to allow approval of assistance to a new business for which underwriting suggests likely success.

Eligible Businesses:

- Must have a physical business address in the City of Arcata jurisdictional boundaries
- Must possess a valid City of Arcata Business License or have an application pending
- Must submit a complete Program application to the City
- Must have business and marketing plans drafted
- Must work with and present a letter of recommendation from an approved Technical Assistance Agency (see Section 3.5)

Eligible Applicants:

- Must have clearly identified vision of business goals
- Must demonstrate an understanding of the market for their product or service
- Must provide proof of primary residency. (The City shall insure that the majority of recipients are residents of the City of Arcata.)

- Must provide income and asset supporting documentation
- Must have successfully completed participation in a Microenterprise Technical Assistance Program see Section 3.5)

Eligible applicants approved by the Loan Advisory Committee (LAC) are considered “Program Participants”. Eligibility is valid for six months from the date of approval. Program Participants that do not finalize a loan or grant within the eligibility timeframe must obtain recertification for an additional six months.

3.2. INELIGIBLE PROGRAM APPLICANTS

Applicants that do not satisfy the primary eligibility criteria are ineligible for the Program. Applicants that do not satisfy one or more additional eligibility criteria and are not granted a special circumstance request (Section 4.7) are ineligible. Applicants currently participating in this Microenterprise Financial Assistance Program are ineligible for new Financial Assistance through this Program. Ineligible applicants may not participate in the Program and may not receive loan and/or grant funds.

3.3. ELIGIBLE USE OF PROGRAM FUNDS

Program funds may only be used for eligible uses. The City will review the sources and uses of funds proposed by the business prior to authorizing a loan or grant disbursement schedule to ensure all proposed uses are eligible for funding. No ineligible expenses will be reimbursed by the Program. Eligible uses are those not explicitly listed as ineligible. The State CDBG Grant Management Manual provides additional detail on eligible uses.

While not exhaustive, the uses listed in the table below are considered eligible.

The Program provides loans and grants (Sections 6 and 7, respectively), depending on the proposed use and the needs of the business. In general, grants are designed to develop business capacity, knowledge, or business planning, whereas loans may be for any eligible use.

In general, grants may be awarded for items that have no resale value, such as services or affixed tenant improvements.

A business may not obtain a loan and a grant simultaneously, but a loan may succeed a grant once the work plan established for the grant is completed and the grant is closed out.

Eligible Uses	Grant	Loan
Operating Capital for staff salaries or leasing space		X
Purchasing inventory, supplies, computer programs for accounting and inventory control or furniture, fixtures and equipment (FF&E)		X
Rehabilitation of owner occupied or leased space (tenant improvements) including engineering, architectural and local permits or fees	X	X
Equipment Purchase (with or without installation costs)		X
Refinance of existing business debt in conjunction with financing other eligible costs, except credit cards		X
Marketing materials and advertising with website development and servicing	X	X

3.4. INELIGIBLE USE OF FUNDS

Funds under this Program shall not reimburse expenses incurred prior to the City's certification of the National Environmental Policy Act (NEPA) documentation for the project (see Section 3.8). Program funds shall not be used to pay off nonbusiness debt, such as personal credit cards not associated with the business. Loan funds may not be used for personal expenses such as buying a new family car or making repairs to a participant's home. CDBG funds may not be shifted from one approved type of cost to another without obtaining advance City approval. Funds may not be used to support other businesses in which the borrower may have an interest.

3.5. MICROENTERPRISE TECHNICAL ASSISTANCE REQUIREMENT

Program participation is contingent on a needs assessment of the business to identify strengths and challenges of the business plan and team. The CDBG Program requires that all applicants for Program funding attend one or more Technical Assistance ("TA") classes offered by an approved local Small Business Development Center (SBDC), a Program Operator, or other local private for-profit or nonprofit business development agency (TA provider) approved by the City.

Each applicant must have a letter of recommendation from the local SBDC or approved TA provider that states, at a minimum, the applicant has a professional business plan, adequate management capacity, and a financial management system in place to operate the existing or proposed business successfully. In addition, the SBDC or TA provider will confirm that the business and the owner are financially sound and have the capacity to execute the business plan.

Additional TA may be required as a condition of the loan or grant depending on a needs assessment of the business. Conditions will be included in the loan or grant agreement, and loan or grant funds disbursement is contingent on satisfying the conditions. The TA assessment is intended to ensure the business has the capacity to carry out the business plan. TA conditioned in the loan or grant will target key growth areas.

3.6. DOCUMENTING BUSINESS AS A MICROENTERPRISE

Eligible applicants must document the business has five (5) or fewer employees, including the owner(s). Documentation includes but may not be limited to payroll records, EDD reports, and business financial records. All employees, part time and full time, on the business payroll at the time of loan application will be counted. The term “employee” includes all owners of the business on the payroll, even if the owner’s “salary draws” are not on a regular basis. The Program Operator will require the business provide third party records documenting the number of employees at the time of application.

3.7. MEETING CDBG NATIONAL OBJECTIVE REQUIREMENT

Under federal regulations, use of CDBG funds for microenterprise activities must meet the national objective of benefit to low- to moderate-income persons. As such, all microenterprise owners must be documented as meeting HUD’s low- to moderate-income (LMI) definition prior to receiving any Program services. This is in addition to meeting the definition of a microenterprise, as described above in Section 3.6. The City will verify that the LMI requirement is met by completing the Part 5 income verification process. MAF Program applicants must submit required documentation to complete the Part 5 income verification process to determine Program eligibility.

As with other CDBG activities, if the City determines that applicant income information is inaccurate and/or the applicant's income is over HUD's income limits, then all Program services must cease immediately.

3.8. OTHER CDBG FEDERAL REGULATIONS

There are a number of other federal laws and state regulations that are triggered with use of CDBG funding. The City will ensure compliance with these requirements. Any federal or state laws or regulations that impact the proposed project will be explained to Program applicant prior to funding so they know and understand how these may affect the project.

Environmental Review: An environmental review is required by HUD for each business funded with CDBG monies (24 CFR 58). The review must be completed prior to any activities commencing with the business and the review must encompass all aggregated activities for the business. The environmental review will comply with HUD’s regulations regarding the National Environmental Policy Act (NEPA). The City is required to complete and certify the NEPA review along with any State environmental review under California’s Environmental Quality Act (CEQA). The level of environmental review is determined by the type of proposed project and the associated activities. The loan applicant will be informed of any additional loan processing time due to the NEPA review. No costs will be charged to the applicant for this process.

Prevailing Wage & Davis-Bacon: Federal Davis Bacon regulations and related compliance Acts are required when CDBG funding is used for construction, and may add additional costs to projects. In addition, state prevailing wage may be triggered with the use of CDBG funding. The Program Operator will work with applicants to ensure that funded business projects are in compliance with state and federal prevailing wage laws. Applicants will be informed of any additional time, costs or administrative work required due to the prevailing wage regulations and any additional costs may be incorporated into the business loan.

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

Procurement: Federal procurement rules apply to Program funds. CDBG Procurement policy details these rules in its Grants Management Manual. In general, and if applicable, the Program Participant will be required to obtain three (3) bids or cost estimates for all project costs. Sole source procurement is allowable with City review and approval.

Conflict of Interest: No conflict of Interest is allowed, in accordance with Title 24, Section 570.489(h) of the code of Federal Regulations. As such no member of the governing body and no official, employee or agent of the local government, nor any other person who exercises policy or is in a position to participate in a decision-making process or gain inside information with regard to such activities (including members of the loan committee and officers, employees, and agents of the loan committee, the administrative agent, contractors and similar agencies) in connection with the planning and implementation of the CDBG Program shall directly or indirectly be eligible for this Program, nor shall those with whom they have family or business ties. This ineligibility shall continue for one year after an individual's relationship with the City ends. City will verify and certify that a conflict of interest does not exist with the business or applicant. Exceptions to this policy may be made in accordance with Section 570.489(h)(4).

Equal Opportunity Compliance: This Program will be implemented in ways consistent with the City's commitment to state and federal equal opportunity 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 CDBG Program funds on the basis of his or her religion, religious affiliation, age, race, color, ancestry, national origin, sex, marital status, familial status (number or ages of children), physical or mental disability, sexual orientation, or other arbitrary cause.

Miscellaneous Provisions: Federal regulations require the use of CDBG Program income (PI) first when the City is operating a loan program activity with an open grant that is the same as an existing PI revolving loan account (RLA) activity.

All businesses receiving funds under this Program will be required to obtain a Unique Entity (UEI) ID. The UEI number is free and can be obtained online. A copy of the printout with the applicable UEI number shall be kept in the Program Participant file.

Verification from the SAM.gov agency must show that all businesses and participants are not on the federal debarred list.

The Department requires the City collect certain income and demographic data from all Program applicants and participants.

4. PROGRAM OPERATIONS AND APPLICATION PROCESSING

4.1. PROGRAM MARKETING AND OUTREACH

Program marketing will be conducted by the City. Examples of marketing include media coverage with ads in local papers, distribution of marketing brochures to local chamber of commerce and business networking organizations. Presentations may be scheduled for these groups, as well as real estate groups and local commercial banks. The SBDC will be used as a referral agency.

4.2. 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 4.5.

4.3. APPLICATION PROCESSING

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.

Applications will be processed in phases to ensure the Program Operator provides the highest and best use of services and resources. Interested business owners will be encouraged to submit a screening application (Attachment B) to determine whether the primary eligibility criteria are likely to be satisfied on further documentation. Businesses that appear eligible in screening will be invited to complete a full application (Attachment B). Full applications will be processed on a first-come-first-served basis. The priority of applications on this basis will be set when a complete application, including any pre-application TA requirements, are satisfied and documented. The Program Operator will date stamp fully completed MFA application forms when submitted, along with any supporting documentation.

The business will be required to provide financial information and agree to a credit check as part of loan processing. Preparation and submission by an applicant of preliminary information and supporting documents include, but are not limited to:

- Business and personal tax returns for the last three years or since commencement of operations (whichever is less)
- Business financial statements (balance sheet and income statements) for current year and prior three years
- Current personal financial statement, credit history, and proposed project summary
- Start-up businesses must submit pro forma financial statements for the first three years

- Real estate projects must submit pro forma projections for the first three years, and pre-leasing information.

The Program Operator will accept applications and review for income eligibility, number of employees, and basic underwriting. Applications that do not meet basic requirements of the Program will be returned with an explanation. The City will interview the applicants and review the application for funding in combination with these program guidelines. A site visit may be conducted if the business is in operation. The City will compile a loan package with all the credit, financial, and underwriting information required for loan analysis. All loan documents from application through loan approval and disbursement of CDBG funds will be contained in a project file for future monitoring by the Department.

4.4. PROGRAM LOAN ADVISORY COMMITTEE ACTION

The Loan Advisory Committee (LAC) shall make final determinations whether to approve a request for assistance. See Section 2.1 for information about the LAC.

LAC meetings will be scheduled by City staff once a loan or grant has been underwritten and is ready for review and approval. LAC members are responsible for reviewing each application funding proposal and may request additional information and or attach contingencies for final approval and closing. In addition to reviewing projects for compliance with CDBG requirements outlined in these Guidelines, the LAC will also consider the following when reviewing an application:

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

- Land use zoning or design review
- Building permits if applicable
- California Environmental Quality Act (CEQA) if applicable
- Other federal, state, or local regulations which may be applicable.

4.5. APPLICANT CONFIDENTIALITY

The City, Loan Servicer, or any persons involved in the application process for this Program will not disclose any of applicant's business or personal confidential information as part of the 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 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 an applicant file, then only non-confidential information, as verified by legal counsel, will be provided.

4.6. DISPUTE RESOLUTION/APPEALS PROCEDURE

Any person applying for a financial assistance loan through the CDBG Program has the right to appeal if their application is denied. The appeal must be made in writing to the City. A written response to the appeal will be provided to the applicant by the Program Operator within 30 days of receipt of the applicant's appeal letter.

4.7. EXCEPTIONS AND SPECIAL CIRCUMSTANCES

Exceptions are defined as any action that departs from policy and procedures stated in the guidelines. The City 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.

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.

4.8. CLOSING PROCESS

After LAC approval of a MFA loan, and meeting of all conditions of funding, the City and/or Loan Servicing Agent will prepare for the loan or grant closing.

The Loan Servicing Agent (Agent) may process all loan or grant closings. The Agent may use a title company at its discretion or at the direction of the City, especially when real property is being secured. The City will prepare the escrow instructions as needed. The Agent may prepare loan closing documents, order title and lien searches, and make UCC-1 filings, as appropriate. Loan closing costs may be paid with Program funds.

City legal counsel will review all agreements and documents, as necessary. Approved Sample Loan and Grant Agreements, as well as conditions for subordination and other common loan modification actions, are on file at the City's Community Development Department.

CDBG funds will only be disbursed for reimbursement to the borrower for documented eligible project expenses. Funds may be paid directly to third-party vendors for project costs. Ongoing operating costs for the business for working capital will be reimbursed based on monthly documented costs.

5. UNDERWRITING PROCESS

5.1. GENERAL CREDIT REQUIREMENTS

The City will use the applicants' credit score as a baseline for determining creditworthiness. In general, a credit score of 620 or above is 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.

Applicants with FICO scores below 620 will require targeted analysis, economic impact assessment, and mitigation for the identified credit risk.

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 will be reviewed. If a Dunn and Bradstreet report is not available, as is commonly the case, the Lender may contact vendors or suppliers of the business to inquire as to the business payment history.

5.2. MANAGEMENT AND CAPACITY REQUIREMENTS

A Program Participant must show:

- Ability to operate a business successfully
- Adequate borrowing ability or equity to operate with the new loan payments, on a sound financial basis
- The proposed loan is of sound value and provides for the current and future needs of the business
- The past earning records and future prospects of profits.

5.3. ADDITIONAL PROJECT UNDERWRITING CRITERIA

Each project/business will be evaluated based on how it has performed in the past and its future financial forecasts:

- The amount of private dollars used as leveraging funds;
- The past financial viability of the proposed project;
- The future financial viability of the proposed project;
- The demonstrated need for the funds; and
- Personal financial strength of borrowers.

6. LOAN TERMS AND SECURITY

6.1. MAXIMUM LOAN AMOUNT

Eligible microenterprise businesses may borrow up to \$50,000 in loan funds with this Program; however, typical loans range from \$15,000 to \$35,000. A Program Participant is not eligible for both a loan and a grant at the same time. However, an application for loan funds may be made subsequent to a grant award. The actual loan amount, up to the maximum, will be determined by the underwriting process. Generally, applicants must show adequate debt coverage ratio based on the market projections or a loan-to-value ratio that would support the loan.

Loans made with the Program require repayment. While the Program is designed to assist businesses that would not satisfy standard underwriting, and the terms and rates are favorable, Program Participants will be signing a promise to repay funds and will be collateralizing the loan.

6.2. LOAN TERMS AND FEES

Microenterprise Program grants do not require repayment. The information included in this Section 6.2 pertains to Microenterprise loans only.

Term

The loan term typically ranges from three to eight years; depending on the type of financing and the collateral being offered by business.

Interest Rate

Interest rates will generally fall between 3.9% and 6.9%. The interest rate will ultimately be determined based on the underwriting. Some of the factors that will drive the interest rate are:

- Ability of the business to service the loan
- Credit history and score
- Collateral
- Borrower equity and investment
- Whether the business will create jobs and at what pay levels
- Whether the business will generate sales tax or transient occupancy tax (TOT)
- Rate of return the business will receive with a lower interest rate.

The interest rate shall be fixed for the term of the loan.

Fees

The CDBG Program provides administration and activity delivery funds to pay for loan processing costs. No direct loan fees will be charged to the borrower.

However, a loan servicing fee assessed by the Loan Servicing Agent may be charged to the borrower upon close of the loan. This amount will not pay for any costs already paid for by Program activity delivery.

Repayment and Prepayment

Loan payments may, on a case by case basis, be deferred for a period of time. This payment deferral determination is made by the City and is subject to approval by the LAC.

All loans will require repayment. Interest only or deferred payments may be available for up to six months based on the need of the business for cash-flow. Longer deferrals will require a special circumstances request (Section 4.7).

There is no pre-payment penalty on any loan under this Program.

6.3. LOAN COLLATERAL AND SECURITY REQUIREMENTS

Microenterprise grants do not require collateral. Loans should be collateralized to the greatest extent possible up to 150% of the loan amount. Both personal and business assets will be reviewed for collateral coverage.

Types of collateral may include:

- Liens on real property with Deeds of Trust
- Liens on machinery, equipment, or other fixtures
- Lease assignments, as appropriate
- City Named as Beneficiary on Life Insurance
- Other collateral, as appropriate
- Personal and corporate guarantees.

6.4. LOAN SECURITY POSITION

All loans will be secured in the strongest possible position to ensure loan repayment in the event of a default. Loans may be secured in a second or third lien position.

6.5. LOAN-TO-VALUE RATIO (LTV)

All loans will be secured to the highest degree possible, up to 150% of collateral value. In some instances the collateral being used to secure the loan may already be fully encumbered by another Lender, in which case the LTV ratio may exceed 100%. The City may choose to lien these assets although they are over encumbered.

6.6. LOAN DEBT SERVICE COVERAGE

The business must show that the loan payment will be covered by the projected revenue of the business. In addition, the business owner should be able to pay themselves a reasonable living wage. Typical debt coverage ratios for the Program are 1.25; coverage as low as 1.10 will be accepted on a case-by-case basis.

The debt ratio will be calculated for the borrower's personal financials as well as the business financials. Borrower's personal financials and debt service levels must be reviewed to ensure the existing or proposed microenterprise business is not adversely impacted by negative personal financials. In the same way, the business must contribute to the borrower's financial health. This is necessary because the financials of the borrower and business are closely tied.

6.7. LOAN COLLECTION AND SERVICING

The City may contract with a Loan Servicing Agent (LSA) for its CDBG Microenterprise loans. The duties of the LSA may be found in Section 2.1.

See Attachment C of these guidelines for the City's sample business loan servicing policies. These policies and procedures include: collection of loan payments, monitoring, changes in title or transfers of title, changes in use, being current on insurance and property tax, default and foreclosure process.

City staff will be responsible for securing the services of a loan servicing agent. The LSA will comply with City loan servicing policies when collecting payments. All loan repayments of past CDBG Microenterprise loans will be serviced by an LSA experienced in collecting and servicing business loans. City staff will work closely with the LSA to monitor the City's existing loans. The loan servicing agent will give quarterly reports on the status of loan payments, for review by City oversight and fiscal staff. If the LSA visits a borrower to talk about late payments or discuss how the business is doing, then the City's staff shall also be invited to attend the meeting.

At LAC meetings, City staff may brief members on problems or concerns regarding repayments of existing loans. This includes decisions to foreclose and declare defaults. In addition, the governing body will make the final decisions regarding loan collection in conjunction with legal counsel and staff.

City staff will complete required Department CDBG financial reports for Program Income and grants. Staff will complete any quarterly, annual, or other reports for review, approval, signature, and submittal by the City to the Department CDBG Program representative.

City staff will consult and monitor the loan servicing agent in the same way the Operator is monitored.

7. GRANTS FOR MICROENTERPRISE BUSINESS EXPANSION

7.1. SMALL GRANTS FOR LIMITED EXPANSION ACTIVITIES

The City may make grants of up to \$10,000.00 to eligible microenterprises. Such businesses must either have completed or be enrolled in TA training accepted by the Program Operator.

The grant Program may compliment the training provided by TA activities. TA activities focus primarily on development of business and marketing plans, and financial management capacity building. As such, examples of good uses of grant funds to strengthen capacity of microenterprise businesses include:

- Payment for marketing costs such as business cards, logo /branding design and development, flyers and publications/ advertisements, web site enhancement or development
- Payment for computers and/or software to implement improved financial and accounting systems or software systems to help manage inventory or billings/ invoices.
- Grants may also be used for tenant improvements or other capacity building improvements or improvements required by industry regulations, a condition of permit, or other licensing approval. Such items include but are not limited to flooring, range hood systems, electrical upgrades, and equipment or improvements affixed to the unit.

Grant funded items may not be liquidated for cash by the grantee.

7.2. UNDERWRITING AND ADMINISTRATION OF GRANTS

The City will only make grants available to eligible microenterprise businesses that have successfully completed or be enrolled in the TA courses needed for start-up or expansion of their business. The owners should have credit scores of 620 or above unless there is a reasonable explanation for poor credit history and the LAC approves a special circumstance request for a lower score.

The City will require documentation that the grant funded activities will have a positive impact on the future profitability and sustainability of the business. This will be done through analysis of future financial projections or proformas for the business that include the impact of the grant funded activities. Lastly, the City must receive third party cost estimates of the grant eligible costs being requested.

Grant funds will be disbursed to the business as a reimbursement of costs or can be directly to third party vendors. Microenterprise Program participants will be required to sign a grant agreement specifying eligible costs, payment process and reporting procedures.

Attachment A

City's Executed Resolution

Adopting Guidelines

RESOLUTION NO. 234-05

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ARCATA
AUTHORIZING THE ADOPTION OF THE COMMUNITY DEVELOPMENT BLOCK
GRANT BUSINESS ASSISTANCE LOAN PROGRAM AND MICROENTERPRISE
FINANCIAL ASSISTANCE PROGRAM GUIDELINES**

WHEREAS, the City is committed to support and stimulate economic growth by assisting eligible businesses in the City of Arcata with Community Development Block Grant (CDBG) Business Assistance and Microenterprise Financial Assistance Programs; and

WHEREAS, existing Business Assistance Loan Program Guidelines were adopted March 20, 2019, with a COVID-19 Job Retention Addendum adopted December 2, 2020, and Microenterprise Financial Assistance Program Guidelines were adopted March 20, 2019; and

WHEREAS, adoption of updated Guidelines for the CDBG Business Assistance Program and Microenterprise Financial Assistance Program is a milestone requirement for the Economic Development grant 22-CDBG-ED-30042;

NOW THEREFORE BE IT RESOLVED by the City Council of the City of Arcata as follows:

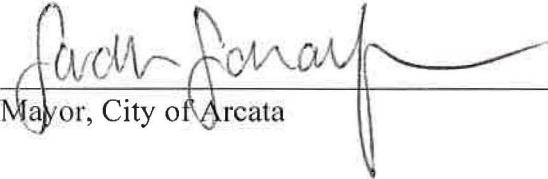
1. Updated Business Assistance Loan Program Guidelines, included here as Exhibit 1, are hereby adopted;
2. Updated Microenterprise Financial Assistance Program Guidelines, included here as Exhibit 2, are hereby adopted;
3. The City Council hereby authorizes the City Manager to execute all documents associated with the City's Business Assistance Loan Program and Microenterprise Financial Assistance Program, and implement the Programs.

DATED: September 6, 2023

ATTEST:


Bridget Dory
City Clerk, City of Arcata

APPROVED:


Jack Farah
Mayor, City of Arcata

CLERK'S CERTIFICATE

I hereby certify that the foregoing is a true and correct copy of Resolution No. 234-05, passed and adopted at a regular meeting of the City Council of the City of Arcata, County of Humboldt, State of California, held on the 6th day of September, 2023, by the following vote:

AYES: SCHAEFER, MATTHEWS, ATKINS-SALAZAR, STILLMAN, WHITE

NOES: NONE

ABSENT: NONE

ABSTENTIONS: NONE



City Clerk, City of Arcata

Attachment B

**Microenterprise Financial
Assistance Application
Forms**



Microenterprise Loans and Grants

Attachment B

Microenterprise loans are \$50,000 or less and are designed to stabilize and grow existing businesses. Terms are flexible and tailored to the needs of the business. Microenterprise grants are \$10,000 or less and may be used to build business.

PRE-QUALIFICATION QUESTIONS

Do you live within Arcata City limits? Residency is preferable but not a disqualification if you live outside Arcata.

Is your business located within Arcata City limits? Only businesses located in Arcata City limits are eligible.

How many employees does your business have (including you)? A business may have only 5 or fewer employees, including owners.

Do you and all other owners make less than 80% of Area Median Income? The median income is set by HUD. Your income will be verified by tax returns, EDD records, or payroll records. Following are 2023-2024 limits effective 06-15-23. Contact us for median income limits for families with more than 6 people in the household.

<u>All People in Household</u>	1	2	3	4	5	6
HUD 80% Median Income	\$46,200	\$52,800	\$59,400	\$65,950	\$71,250	\$76,550

Do you have a business plan? A marketing plan? If you do not have a business or marketing plan, the Small Business Development Center (SBDC) in Eureka can assist you in putting plans together.

Do you have financial projections? We want to see what your business would look with the loan you want to apply for. The SBDC can also help with training in understanding and preparing financial projections.

Can you provide tax returns and financial statements? Business and personal tax returns are required. If your business is new, three years of financial projections are required.

Do you have a credit report, or a good idea what your credit score is? A credit score of 680 or higher is ideal. If your credit score is less than 680 you will need to provide explanations. You might also have to provide additional collateral.

What would you use the loan for? The loan cannot be used to refinance personal debt, or to purchase items that are for personal use. Disbursements are made directly to vendors, or reimbursed upon proper documentation.

Do you or your business have assets that can be used as collateral? Business and personal assets can be used as collateral for a loan. Decisions about how much collateral to take are made on an individual basis, but collateral will always be required.

Have you worked with the Small Business Development Center (the SBDC)? You will be required to provide a letter of recommendation from the SBDC. You will also be required to attend classes on certain business ownership topics that are given by the SBDC or other business development providers. Grants may be available for these classes.

How long have you been in business? Microenterprise loans are designed to stabilize and grow businesses – to help business owners position themselves to create jobs now or in the future. Startup businesses may be acceptable, but will require collateral and owner equity.

IF YOUR BUSINESS MEETS THESE REQUIREMENTS, complete a Pre-Application form and return it to the Community Development Department. You can find the Pre-Application form at the City's Community Development Department at City Hall, or online at www.cityofarcata.org/departments/community-development/economic-development. (If you are viewing this online, just click the link.)



Microenterprise Pre-Application Form

Loan and Grant

PERSONAL INFORMATION

Applicant Name (First, Middle, Last) _____

Street Address _____

City _____ State _____ Zip _____ County _____

Social Security Number _____ Date of Birth (Month/ Day/ Year) _____

Phone _____ Secondary Phone _____

CA Drivers License # _____ Email _____

Head of Household	Yes	No	Gender	M	F	Other	Veteran	Yes	No	Disabled	Yes	No
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Marital Status	Married	Unmarried	Separated	Ethnicity	Hispanic	Non-Hispanic
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Race (Check ALL that apply)	American Indian/Alaskan Native	Asian	Black/African American
	Native Hawaiian/Other Pacific Islander	White	Other

Is there a Co-Applicant? Yes _____ No _____ Co-Applicant Name _____

Is Co-Applicant a Household Member? Yes _____ No _____ (* A separate Pre-Application form is required for all Co-Applicants)

PERSONAL FINANCIAL INFORMATION

List your monthly income (your income only) and your household monthly income (your income income from other household earners).

Household Size _____	Adults _____	Children _____
----------------------	--------------	----------------

<u>Source</u>	<u>Applicant's Monthly Income (You)</u>	<u>Household Monthly Income</u>
---------------	---	---------------------------------

From Job / Employment	\$ _____	\$ _____
-----------------------	----------	----------

From Business	\$ _____	\$ _____
---------------	----------	----------

Other _____	\$ _____	\$ _____
-------------	----------	----------

Other _____	\$ _____	\$ _____
-------------	----------	----------

TOTAL	\$ _____	\$ _____
--------------	----------	----------

NOTE: If you are invited to complete a full application, documentation that verifies the income stated here will be required.

Have you ever filed bankruptcy or do you currently have property in foreclosure? Yes * _____ No _____

Do you have any unpaid federal or state taxes, liens or judgments against you? Yes * _____ No _____

Have you ever defaulted on a federal government student loan? Yes * _____ No _____

*** If you have answered yes to any of the three questions above, please attach an explanation.**

The undersigned hereby authorizes the City of Arcata or any of its affiliates to make all inquiries with credit bureaus and others it deems necessary – including business counselors, consultants, and partnering agencies – to verify the accuracy of the information provided herein and to determine creditworthiness. Further, the undersigned hereby certifies that the enclosed application information is valid, accurate and complete. A photographic or facsimile copy of this authorization may be deemed to be equivalent of the original.

Signature _____ Date _____

BUSINESS INFORMATION

Business Name _____

Business Address _____

City _____ State _____ Zip _____ County _____

Business Description _____

Total Number of Employees, Including Owner(s) _____

When did you, or when will you, start your business? _____

If you have an existing business, what were last year's gross revenues? \$_____

PROJECT DESCRIPTION – Business Needs

Please provide us with details about your business needs below. You may request a grant up to \$10,000, and a loan up to \$50,000.

LOAN ONLY: List collateral available to secure a loan (such as a vehicle, real estate, equipment):

How did you learn about this loan program? _____

Are you working with a Business Counselor (SBDC, WIB, County Business Counselor)? Yes _____ No _____

Counselor Name and Contact Information: _____

Submit by email, fax, or mail to:

Susan Diehl McCarthy

City of Arcata, 736 F Street, Arcata, CA 95521

sdiehlmcCarthy@cityofarcata.org

Call Susan at #707-825-2168 with any questions.

Basic Eligibility Checklist

- Business is located within Arcata city limits
- Business has 5 or fewer employees, including owner
- All owners are at 80% or less of local median income per HUD standards
- Owners have developed business and marketing plans
- Owners have developed financial projections
- Business has a financial track record and can produce tax returns and financial statements
- Business owner has a FICO credit score not less than 620
- Purpose of the loan is business use only – may not refinance personal debt, or make personal purchases

General Comments

The purpose of the pre-app meeting is to determine whether a full package should be accepted. Eligibility is based on whether the potential applicant has a clear vision of business goals, a firm understanding of the market for its products, and whether they can fulfill requirements for a complete application.

Income Requirements – General

2023-2034 CDBG Income Limits Effective 06-15-23

People in Household	1	2	3	4	5	6
HUD 80% Max Income	\$46,200	\$52,800	\$59,400	\$69,950	\$71,250	\$76,550

Can the Applicant Provide the Following Information?

Completed Microenterprise Application

Project Summary (Purpose of the Proposed Financing)

Business Plan

Marketing Plan

3 Years Business Tax Returns (or since business commenced; whichever is less)

3 Years Personal Tax Returns

Business Financial Statements (Balance Sheet and Income Statement) – Current Year and Previous 3 Years

Start-Ups: Pro-forma Financial Statements for the First 3 Years

Personal Financial Statement

Access to Business or Personal Collateral (NA for Grants)

Acceptable Credit, with a minimum FICO score of 620 (<680 requires explanations)

Is the Use of Proceeds Acceptable?

- Operating capital for staff salaries or leasing space
- Purchasing inventory, supplies, accounting or inventory computer programs, or FF&E
- Minor improvements to owner-occupied or leased space, including fees (less than \$2,500)
- Equipment
- Refinance existing business debt (except credit cards) together with other eligible uses
- Marketing and advertising materials, including website development and service

Management Capacity Conversation

- History and success of operating this and any other business
- Applicant's understanding of their market - opportunities and challenges
- How the proposed loan is important and valuable to the business
- Prospects for the business are positive

Management Comments

Not Ready to Proceed. This interview may reveal that the applicant is not yet ready to submit a complete application. For example, they may not have a business plan, or an understanding of the market for their product, or a credit score that needs improvement. If so, refer them to the SBDC with the goal of filling in the missing pieces.

Ready to Submit an Application. If the proposed applicant is ready to go, provide the Supplemental Checklist.

Comments / Actions

SUPPLEMENTAL APPLICATION CHECKLIST – MICROENTERPRISE LOANS

Attachment B

Provide the Following Information:

Detailed Project Summary (Purpose and Cost Breakdown of the Proposed Financing)

Business Plan

Marketing Plan

3 Years Business Tax Returns (or since business commenced; whichever is less)

3 Years Personal Tax Returns for Each Owner

Business Financial Statements (Balance Sheet and Income Statement) – Current Year and Previous 3 Years

Start-Ups: Pro-forma Financial Statements for the First 3 Years

Personal Financial Statement for Each Owner

Detailed Description of Collateral – attach separate sheet

Detailed Explanation of Credit

Attachment C

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.

Attachment D

Sample Loan and Grant Agreements

BUSINESS LOAN AGREEMENT

Attachment D

Principal	Loan Date	Maturity	Loan No	Call / Coll	Account	Officer	Initials
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.							
Borrower: Borrower DBA: if any Address Arcata, CA 95521				Lender: City of Arcata 736 F Street Arcata, CA 95521 707-822-5951			

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 business owner or owners qualify as Low- to Moderate-Income individuals 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.

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

CITY OF ARCATA
MICROENTERPRISE GRANT PROGRAM
GRANT AGREEMENT

THIS GRANT AGREEMENT is made and entered into on Click or tap here to enter text., 20Click or tap here to enter text. by and between Click or tap here to enter text. having its principal office at Click or tap here to enter text. (hereinafter "GRANTEE") and the City of Arcata, having its principal office at 736 F Street, Arcata, CA 95521 (hereinafter "CITY").

WITNESSETH THAT:

WHEREAS, the CITY, by Loan Advisory Committee Action on Click or tap here to enter text. authorized the provisions of funds from the City of Arcata Community Development Block Grant (CDBG) Microenterprise Grant Program to GRANTEE for the purpose of stimulating economic growth and employment in City of Arcata.

NOW, THEREFORE, the parties do agree as follows:

1. Project Descriptions. The CITY will grant funds to the GRANTEE who will use the funds for the financing of Click or tap here to enter text. more fully described in the Exhibit "A," GRANTEE'S application for funds, attached hereto and incorporated herein.
2. Grant Amount. The GRANTEE agrees to receive, and the CITY agrees to grant funds in an amount up to Click or tap here to enter text. (\$Click or tap here to enter text.) for the project. Under no circumstances will the CITY be expected to provide more than \$Click or tap here to enter text. to the GRANTEE.
3. Term. This AGREEMENT shall be in effect until Click or tap here to enter text.20Click or tap here to enter text.. These AGREEMENT terms shall remain in full force and effect until the expiration or termination.
4. Grant Disbursement. The CITY shall disburse grant funds to the GRANTEE only after GRANTEE's fulfillment of the Technical Assistance Requirement, as described in the Guidelines for Microenterprise Financial Assistance Program available on the CITY'S website www.cityofarcata.org/188/Economic-Development. The GRANTEE will be limited to no more than four (4) disbursements of grant funds and each disbursement must be for a minimum of \$1,000.
5. Insurance. The GRANTEE shall maintain insurance throughout the duration of the AGREEMENT, and provide to the CITY Certificates of Insurance as specified below:

- a. Commercial General Liability insurance including property damage, bodily injury and personal and advertising injury with limits no less than \$1,000,000 per occurrence for all covered losses.
 - i. The policy shall be endorsed to include the City of Arcata its officials, employees, volunteers and agents, as additional insureds. The additional insured coverage under Consultant's policy shall be provided on a primary, non-contributing basis in relation to any other insurance or self-insurance available to the CITY.
 - ii. GRANTEE agrees to waive subrogation rights against the CITY regardless of the applicability of any insurance proceeds, and to require that all subcontractors and sub-subcontractors do likewise.
 - iii. The City reserves the right to obtain a full certified copy of any insurance policy and any endorsement, which shall be subject to CITY's review and approval for compliance with this section. Failure to exercise this right shall not constitute a waiver of the City's right.
 - iv. Insurance carriers shall be admitted in the state of California and with an A.M. Best's rating of A- or better and a minimum financial size VII.

The CITY may, at its sole discretion, waive or reduce the required limits of insurance by providing a signed, written exemption, which shall be attached to and incorporated in this AGREEMENT.

- 6. Indemnity. To the fullest extent permitted by law, GRANTEE shall indemnify, defend and hold harmless CITY and any and all of its boards (including the council, boards, commissions, committees and task forces), officials, employees and agents (collectively, "Indemnified Parties") from and against any and all losses, liabilities (including liability for claims, suits, actions, arbitration proceedings, administrative proceedings, regulatory proceedings, losses, expenses or costs of any kind, whether actual, alleged or threatened, including attorney fees and costs, court costs, interest, defense costs, and expert witness fees), to the extent same are caused in whole or in part by any negligent or wrongful act, error or omission of GRANTEE, or where the same arise out of, are a consequence of, or are in any way attributable to, in whole or in part, the performance of this AGREEMENT by GRANTEE, its officers, agents, employees or sub-contractors or any entity or individual for which GRANTEE is legally liable, including but not limited to officers, agents, employees or sub-contractors of GRANTEE.

GRANTEE's responsibility for defense and indemnity obligations shall survive the termination or completion of this AGREEMENT for the full period of time allowed by law.

The defense and indemnification obligations of the Agreement are undertaken in addition to, and shall not in any way be limited by, the insurance obligations contained in this Agreement.

7. Other Undertakings of the GRANTEE.

- a. The GRANTEE agrees to meet CDBG guidelines and to meet:
 - i. The HUD “Low/Mod Limited Clientele, Microenterprise” (LMCMC) National Objective by qualifying as a low/moderate income individual (whose household income status is defined by the schedule included in Exhibit “B”).

The GRANTEE will permit the CITY to inspect the project premises without advance notice at any reasonable time.

- b. The GRANTEE will be solely responsible for seeking, securing and keeping in effect any permits needed to operate the equipment and the facility. The GRANTEE will, upon the CITY’s request, provide evidence of compliance with this paragraph to the CITY.

8. Compliance with HUD Requirements. Grantee shall comply with all of the following requirements where applicable:

- a. The regulations for the CDBG Program contained in 24 CFR, Part 570.
- b. All requirements imposed by Title VI of the Civil Rights Act of 1964 (Public Law 88-352) and Section 109 of the Housing and Community Development Act of 1974, as amended, and the regulations related to equal opportunity (24 CFR, Part 570.601). No person in the United States shall, on the ground of race, color, creed, religion or national origin or sex, be excluded from participation in, be denied and the benefits of, or be subjected to discrimination under any project assisted with CDBG funds.
- c. The flood insurance purchase requirement of Section 102 (a) of the Flood Disaster Protection Act of 1973 (Public Law 93-234).
- d. The lead-based paint requirements of 24 CFR, Part 35, Subpart B, issued pursuant to the Lead-Based Paint Poisoning Act (42 U.S.C., 4801 et seq.)
- e. The regulations, policies, guidelines and requirements of OMB Circular A-102 Revised (Handbook 1300.17), which relates to the acceptance and use of federal funds.
- f. Section 504 of the Rehabilitation Act of 1973 (Public Law 92-112), as amended and implementing regulations. No person (employee or applicant for employment) shall be discriminated against because of a physical or mental disability with regard to any position for which the employee or applicant is qualified.
- g. The provisions of the Age Discrimination Act of 1975, as amended (Public Law 94-135).
- h. Request from HUD, the CITY and the Comptroller General (or any authorized representatives) for access to and the right to examine all records, books, papers or documents related to the grant and cooperate fully with the CITY in supplying information to meet CDBG audit requirements.
- i. Section 3 of the Housing and Urban Development Act of 1968 as amended and

implementing regulations at 24 CFR, Part 135 requiring that to the greatest extent feasible, opportunities for training and employment be given to low/moderate income residents of the project area and contracts for work in connection with the project be awarded to eligible business concerns which are located in or owned in substantial part by persons residing in the area of the project.

9. Audit of Records. GRANTEE shall keep and maintain complete and accurate records of all payrolls, expenditures, disbursements and other documents associated with the receipt and expenditure of CITY grant funds, for a minimum of four (4) years from the date of final grant fund disbursement to GRANTEE. All such records shall be clearly identifiable. GRANTEE agrees to participate actively, if requested, and without compensation in audits of the project made by the CITY, and U.S. Department of Housing and Urban Development. GRANTEE shall, at all reasonable times, allow any duly authorized representatives of the CITY, the Department of Housing and Urban Development, or Comptroller General of the United States access to and the right to inspect, copy, audit, and examine all such books, records and other documents of the GRANTEE until all issues arising from the AGREEMENT have been finally settled. GRANTEE further agrees to provide other documentation the CITY deems necessary to ascertain compliance with Project goals.
10. Assignments. The GRANTEE shall not assign or otherwise transfer any of its rights, duties or obligations under this AGREEMENT without the CITY's advance written authorization.
11. No Waiver. No failure on the part of the CITY to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise by the CITY of any right hereunder preclude any other or future exercise thereof or the exercise of any other right.
12. Notice. All notices permitted or required under this AGREEMENT shall be in writing and shall be deemed to be given when delivered personally or by registered or certified mail postage prepaid, three (3) days after the date deposited in the United States mail, addressed to the respective party at the addresses set forth below. Either party may change its address by notice similarly given. Notice shall be given at:

CITY	GRANTEE
Karen Diemer	Name
City Manager	Title
736 F Street	Address
Arcata, CA 95521	Arcata, CA 95521

13. Recapture of Funds. The CITY reserves the right to require grant funds be returned in the event that the GRANTEE fails to (1) comply with the terms of this AGREEMENT, or (2)

accept conditions imposed by the CITY at the direction of the federal, state and local agencies.

14. Cost of Court Expenses. The GRANTEE agrees to pay reasonable attorney's fees, court costs and disbursements in the event that the CITY takes legal action against the GRANTEE to enforce the CITY's rights under this AGREEMENT.
15. Public Information Disclosures. The GRANTEE understands and agrees that some information furnished in connection with this application for a Microenterprise Grant Program involves the use of public funds and as such may be public pursuant to the statutes of the United States of America and the State of California.
16. Joint and Several Guarantee. The CITY reserves the right to require the GRANTEE to sign a Joint and Several Guarantee that embodies the entire promise of the Guarantors to personally guarantee GRANTEE'S's repayment pursuant to the requirements and obligations of the Grant Program.
17. Applicable Law. This AGREEMENT and the rights and obligations of the parties hereunder shall be construed and interpreted in accordance with the laws of the State of California.
18. Severability. Any provision or part of the AGREEMENT held to be void or unenforceable under any laws or regulations shall be deemed stricken, and all remaining provisions shall continue to be valid and binding upon CITY and GRANTEE, who agree that the AGREEMENT shall be reformed to replace such stricken provision or part thereof with a valid and enforceable provision that comes as close as possible to expressing the intention of the stricken provision.
19. Survival. All express representations, waivers, indemnifications, and limitations of liability included in this AGREEMENT will survive its completion or termination for any reason.
20. Counterparts. This AGREEMENT may be executed in counterparts, each of which will be considered an original, but all of which will constitute one and the same agreement. Facsimile, portable document format (pdf), and verified electronic signatures shall be binding and considered as if an original.

IN WITNESS WHEREOF, the GRANTEE and the CITY have executed this AGREEMENT as of the date first above written.

CITY:

By: _____

Karen T. Diemer, City Manager

Date: _____

GRANTEE:

By: _____

Print Name: _____

Title: _____

Date: _____

Insurance and procurement approved:

By: _____
Danielle Allred, Contracts & Special Projects Manager