

# **City of Park Rapids**

## **Revolving Loan Fund Policy**

The Revolving Loan Fund (RLF) is administered by the City of Park Rapids. The pool includes unrestricted funds and Urban Development Action Grant (UDAG) funds. The fund is intended to provide gap funding to businesses in conjunction with other incentives and business subsidies comprise a package of tools at the disposal of the Park Rapids Economic Development Authority to advance the economic growth of the community.

### **Purpose**

The purpose of these guidelines is to establish policies and procedures for the regulation and coordination of the City's economic developments funds. These policies shall be used as a guide for evaluating loan applications and the administration of the portfolio.

### **Objectives**

The objectives of the Revolving Loan Fund are:

- To create or retain permanent livable – wage jobs in the City by expanding the existing business base and attracting new businesses to the community.
- To leverage private and other public investment to promote economic growth.
- To encourage successful redevelopment in the City's priority development sites.
- To increase the local tax base through building a diverse industry mix.
- To enhance the quality of life within the community.

### **Guiding Principals**

Through its economic development policy, the City of Park Rapids is committed to the following principals:

- Retaining, expanding, and attracting businesses that provide well – paying jobs, sustain investment, and bring new wealth to the community.
- Maintaining a top – tier workforce through coordination among community institutions including development organizations, employment agencies, colleges and universities, and the business community.
- Ensuring growth area continues to receive infrastructure improvements necessary to attract major new business investment.
- Strengthening the ability of older commercial and industrial areas to support additional business activity.
- Nurturing small and start-up businesses.
- Promoting the development of technology – based products and services.

- Promoting high quality and environmentally friendly design in expansion and renovation of facilities.
- Fostering the successful redevelopment of vacant and underutilized commercial and industrial properties.
- Addressing identified housing needs of the community.

### **Eligible Businesses or Projects**

For profit commercial, service, retail, and manufacturing businesses are eligible to apply for RLF funds; however, special preferences will be given, but not limited to, businesses and projects that:

- are manufacturing or technology oriented;
- are non-competitive with an existing business;
- have high growth potential;
- are an existing business expansion; or
- will enhance Park Rapids's quality of place and its competitive advantage.

In addition, private non – profit organizations, governmental units, and tribal authorities may be eligible to apply if the project meets the criteria contained in these policies.

### **Lending Area**

Generally, the applicants must be located in the City limits of Park Rapids or in an area that is in the process of being annexed

### **Undesirable Loans**

The RLF is generally not established to accommodate the following:

- Loans with inadequate equity investment.
- Loans considered bankable by traditional lending institutions at reasonable terms.
- Applicants seeking solely a lower interest rate.
- Refinance of existing debt from other lenders.
- Loans to businesses with local competition.
- Loans to facilitate a purchase of an existing business without a positive economic impact to the community.

### **Use of Loan Funds**

Eligible Purposes:

- Acquisition of physical assets (i.e. equipment, machinery, inventory, software, etc.)
- Acquisition and/or development of land
- Construction, conversion, enlargement, relocation, repairs, remodeling or modernization of buildings, plants, machinery, and/or equipment

- Demolition with an acceptable redevelopment plan
- Working capital
- Initial start – up operating costs and initial working capital
- Technical assistance for private business enterprises
- Small business expansion
- Purchase of an existing business
- Business incubators
- Medical facilities
- Training/Educational facilities
- Tourism
- Interim/Bridge financing
- Housing, with the purpose of attracting and retaining workforce talent (does not include housing rehabilitation or renovations)

### **Loan Amounts**

Applicants may request loan funds in the range of \$5,000 to \$150,000. The RLF may not exceed the maximum of \$150,000 in outstanding principal to any one borrower. Also governing the size of the loan is the City's desire to contribute no more than 25% of the total project costs, on average. It is the intention of this RLF to leverage all other private and public financing sources to the maximum extent possible.

### **Terms**

Typical loan terms will be based on the life of the assets being financed and borrowers' cash flow needs. Generally, loans may be amortized for periods greater than five years but will balloon at five years to allow for the possibility of refinancing by traditional lenders, restructuring, and interest rate adjustments.

### **Interest Rate**

Interest Rates will be set at 1% below the Wall Street Prime Rate and will be locked in prior to the Loan Committee meeting.

### **Collateral**

All loans shall be secured by adequate and appropriate collateral sufficient to protect the assets of the RLF. The RLF will make no unsecured loans; however, it will accept unconventional forms of security, including personal guarantees and may include liens on personal assets. Loans will typically be in a junior collateral position to the major source of project financing.

### **Equity Contribution**

To assure some level of borrower commitment, new businesses will typically be required to provide a minimum of 10% equity investment into the total project costs. The amount of equity required of established businesses will be determined individually dependent upon perceived risk and management ability of the owner. Some in-kind equity may be allowed.

## **Other Terms**

- Applicants must provide either a commitment letter from a participating lender stating loan terms and identifying the financing gap or a bank denial letter listing the requested loan terms.
- Personal guarantees will be required, and assignments of life insurance may be requested.
- All loan applicants are required to pay all related closing costs and fees at the time of closing including, but not limited to, a 1% origination fee.
- Borrower must abide by the terms of the Business Subsidy Agreement and/or Loan Agreement, Security Agreement, Promissory Note, and any other instruments signed at the time of closing and any amendments thereto.

## **Other Funding Options**

The City may choose to assist businesses through Loan Guarantees or Participation Loans under the same general terms as stated above. In addition, the city may utilize funds to complete infrastructure investments critical to economic and business growth. The infrastructure investment must, however, have a clear plan for repayment.

## **Administrative Procedures**

The City of Park Rapids has contracted with Heartland Lakes Development Commission (HLDC) to administer the revolving loan fund. HLDC staff will work with City staff throughout the loan process.

## **Application**

The following documentation is typically required to complete the RLF loan application process, although additional documentation may be requested, as necessary. The applicants will authorize HLDC staff to perform routine credit checks.

- Loan application
- Business plan
- Personal Financial Statements (for all owners and guarantors)
- Two years of owner and/or guarantor tax returns
- Two years of business tax returns and financial statements
- Resume of owner and business manager
- Three years of projected income statements
- Copies of purchase agreements and quotes/estimates for asset acquisitions or construction
- Collateral listing
- Copies of leases, franchise agreements, or other contracts affecting the business
- Copies of Articles of Incorporation, Bylaws, and minutes showing authorization for loan and denoting the authorized signatories of the corporation (if applicable)
- Letter of Commitment from participating lender, noting the terms, conditions, covenants and/or requirements of their portion of the financing, as well as any other stipulations that

may pertain to the RLF financing (if applicable); or bank denial letter listing the terms requested by the applicant.

- Copies of appraisals obtained on assets being acquired or used as collateral
- Proof of liability and property insurance
- Proof of life insurance, if applicable.

## **Underwriting/Approval**

HLDC staff will perform the necessary due diligence and confer with the Loan Committee as needed during the underwriting process. All information of a personal or financial nature contained in the loan application package will be handled securely and discretely.

Upon completion of the underwriting process, HLDC staff will prepare a recommendation to the Loan Committee and arrange for the applicant to make a presentation to the Loan Committee and answer any questions the Loan Committee may have on the project. The Loan Committee will make the final recommendation, which may include guidance on additional requirements or contingencies for approval. The Loan Committee will meet as needed and will strive to make a timely decision. The Loan Committee will make an approval or denial recommendation to the Park Rapids EDA. The Park Rapids EDA will then forward the recommendation to the Park Rapids City Council, which has the sole power to approve or deny a loan application.

Upon approval of a loan request, HLDC staff will issue a commitment letter to the applicant, which the applicant must sign and return within the stated period of days. Failure to accept the commitment letter will render the loan decision null and void.

Upon acceptance of the commitment letter, HLDC staff will consult with legal counsel to prepare the necessary loan closing documents, including but not limited to: Promissory Note, Loan Agreement, Mortgage, and UCC Financing Statement. Borrower must abide by the terms set forth in those documents and any amendments. Loan closings will be coordinated with other lenders whenever possible. Loan documents will be signed by individuals authorized by the City Council.

Generally, loan disbursements will be made at closing or as soon as possible thereafter, or when proper use of funds has been verified. Other loan disbursement arrangements may also be applicable such as advancing partial funds in stages; borrowers will work directly with HLDC staff during this process.

## **Loan Modifications**

During the life of the loan, any loan modification requests should be submitted to HLDC staff, who will review the servicing requests and prepare a recommendation to the Loan Committee. The Loan Committee will make a recommendation to the City Council for approval or denial of the servicing action.

The following loan modification requests may be approved by the Loan Committee without the action of the EDA or City Council:

- Temporary payment modifications (payment reductions, not to exceed 50% of the payment amount or exceeding one year)
- Payment deferrals of up to six months
- Loan extensions not to exceed two years
- Modifications to collateral as long as the loan remains 100% collateralized
- Subordination requests as long as the loan remains 100% collateralized
- Partial release of collateral as long as the loan remains 100% collateralized

### **Loan Documentation**

A loan file shall be maintained that will include all supporting documents and analysis including, but not limited to:

- Original loan application and all supporting documents
- Fully executed loan documents
- Temporary payment modifications (payment reductions, not to exceed 50% of the payment amount or exceeding one year)
- Payment deferrals of up to six months
- Loan extensions not to exceed two years
- Modifications to collateral as long as the loan remains 100% collateralized
- Subordination requests as long as the loan remains 100% collateralized
- Partial release of collateral as long as the loan remains 100% collateralized
- Periodic borrower reports

### **Loan Committee**

The Loan Committee will be made up of representatives of the Park Rapids community, including three local bankers, one local business owner, and a member of the city council. The City Administrator is an ex – officio member of the loan committee.

### **Fees and Costs**

All costs associated with processing the application, preparing the necessary documents, recording fees, and perfecting the appropriate liens, etc. shall be the responsibility of the applicant and shall be paid at the time of loan closing.

### **Payments**

HLDC and the City of Park Rapids will maintain a joint bank account to facilitate the payment administration process. Payments will be set up as automatic “ACH” payments whenever possible. Administration and servicing of RLF loans will be performed by HLDC staff and maintained in loan servicing software for that purpose.

HLDC staff will provide a monthly accounting to City staff on the distribution of all payments between principal, interest, fees, and other items for all funds received during the month.

### **Required Borrower Reporting**

HLDC staff will collect periodic reporting from borrowers per their loan agreement requirements and maintain such documents in the loan file.

### **Conflicts of Interest**

Loan Committee members must disclose any potential conflicts of interest with existing borrowers or applicants and such details shall be clearly documented.

Loan Committee members who have a fiduciary interest in a borrower or applicant under discussion will be expected to abstain from voting on matters related to that business. At the option of other members, he/she may be asked to provide input.

### **Revolving Loan Fund Accounting**

Unrestricted funds and UDAG funds will not be co – mingled and will be accounted for separately. Loan payments will be applied to the respective fund. Principal and interest payments will be tracked to monitor fund growth and cash available to lend.

### **Statement of Non – Discrimination**

Discrimination on the basis of race, color, religion, or belief, national, social, or ethnic origin, sex (including pregnancy), age, physical, mental, or sensory disability, sexual orientation, gender identity and/or expression, marital, civil union, or domestic partnership status, past or present military service, family medical history or genetic information, family or parental status, or any other status protected by the laws or regulations in Minnesota.

### **Reporting**

In addition to monthly payment summary information, HLDC will provide quarterly reports to the City that includes the following information:

- Marketing efforts conducted by HLDC
- Number of loan inquiries received
- Number of requests in underwriting
- Number of loans closed
- Current status of all loans
- Amount available for lending