GLENVILLE LOCAL DEVELOPMENT CORPORATION
BUSINESS ASSISTANCE LOAN PROGRAM

GUIDELINES FOR DIRECT FINANCIAL ASSISTANCE

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Glenville Business Assistance Loan Program

Loan Program Guidelines

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I. INTRODUCTION

The Glenville Local Development Corporation (GLDC) has capitalized a Business Assistance Loan Fund (the “Loan Fund”). This Fund is designated to make direct loans to businesses and to facilitate economic development including but not limited to the following:

- Creation of new permanent employment
- Retention and expansion of existing businesses
- The leveraging of new private investment in Town of Glenville

The intended use of the Loan Fund is to supplement not replace owner equity, private capital and other traditional financing sources required to undertake an economic development project.

This Loan Fund is subject to the requirements of the federal statute and regulations relative to the use of Community Development Block Grant Funds (CDBG).

These guidelines reflect HUD recommended loan underwriting criteria. They are however “guidelines” and with the exception of the requirement to meet the “National Objective” of the CDBG program and the CDBG mandatory public benefit standard, the GLDC at its discretion may conduct loan review and approve projects with terms and conditions that vary from these guidelines to account for unusual circumstances or unique project situations or conditions.

II. PURPOSE OF THE BUSINESS ASSISTANCE LOAN PROGRAM

The Purpose of the Business Assistance Loan Program (the “Loan Program”) is to make direct loans to new or existing for profit businesses that will create jobs, 51% of which will be available to or taken by persons of low or moderate income.

Projects assisted with Loan Program funds are subject to the requirements of federal statute and regulations relative to the use of Community Development Block Grant Funds. The use of Loan Fund monies to assist businesses, shall meet the CDBG National Objective of principally benefitting low and moderate income persons. In making loans to businesses this objective is achieved through the creation of jobs. Therefore, loans to businesses must either result in the creation of jobs 51% of which are available to low or moderate income persons or the loan is made for business purposes to an individual or family that qualifies as a low or moderate income person or family.

III. LOAN PROGRAM ORGANIZATION AND ADMINISTRATION

A. The Glenville LDC/Loan Review Committee

The Glenville LDC (the “LDC”) shall review, approve, approve with conditions or deny all requests for Loan Funds or for eligible activities in support of economic development. All LDC approvals for business loans are subject to the submission to The Glenville LDC of acceptable project documentation for each proposed use of direct financial assistance.

The Glenville LDC Loan Review Committee shall initially meet with the applicants and review preliminary applications prior to formal review and action by the Glenville LDC Board of Directors

The Loan Review Committee shall work with the Glenville LDC Board of Directors and/or consultants to evaluate each loan application pursuant to these underwriting guidelines and public benefit standards and will document the basis for the committee’s recommendations.

B. Loan Application Process

The Glenville LDC shall establish forms and procedures for the receipt and processing of applications. The procedures are to be available to applicants in the form of a loan packet. This packet includes a loan application form and a request for personal and business financial information including business plans and financial projections and authorization for a credit check. Additional information may be requested if deemed necessary to assist in the review of the loan request.

The application and supporting documentation must be submitted to the Chairman of the Loan Review Committee. Personal and business financial information and proprietary business information will not be made available to the public and the LDC shall maintain the confidentiality of such information. This information, however, will be used by the LDC during its review of the loan application.

C. Loan Applications, Fees, and Related Costs

There shall be an initial loan application fee as determined by the LDC Board of Directors.

The loan applicant may be responsible for the fees and expenses of the LDC Counsel and all reasonable out-of-pocket expenses incurred by the LDC in connection with a loan closing (including the recording of loan documents) at the discretion of the LDC. Costs not paid by the applicant are to be paid as administrative expenses out of the Loan Fund.

D. Status Reports

The LDC will periodically prepare or have prepared a report on the status of the loan program which includes a portfolio report on the entire Loan Program and individual reports on each loan closed.

IV. PROGRAM GOALS AND OBJECTIVES

The primary goals and objectives (in terms of their priority) of the Loan Program are:

A. To create employment opportunities for persons of low or moderate income through the expansion of existing or the creation of new businesses. Assistance to businesses that have the potential to create substantial numbers of new jobs, and/or directly impact the revitalization of the Town of Glenville (outside the Village of Scotia) or support the revitalization of the surrounding neighborhoods shall have priority.
B. Develop a loan portfolio which has a variety of business and types of loans.
C. To make loans to businesses that are supported by viable business plans and that have a reasonable prospect for financial success, even though there is a high degree of risk and minimal collateral and equity.
D. To increase taxable value of property within the Town of Glenville (outside the Village of Scotia) and retain existing employment opportunities.
E. To provide assistance to projects and businesses that provide services needed by and affordable to low and moderate income residents.
F. To develop a loan portfolio which to the greatest extent possible includes loans which have a varying degree of risk and a balance in the type of loan. (Re: fixed assets financing vs. working capital or inventory financing.

V. PROGRAM GUIDELINES AND STANDARDS

A. Project Eligibility

The use of Loan Funds to provide direct financial assistance (i.e., a loan to a business) must meet the CDBG national objective of principally benefiting low or moderate income persons and meet other program requirements including public benefit standards as further detailed in these guidelines.

B. Program Underwriting Guidelines and Objectives

All projects which propose to utilize Loan Funds shall be reviewed and evaluated against the following guidelines and objectives.

Loan approvals shall require a determination that the project or program as a whole substantially complies with the following guidelines and objectives.

- that project costs to be assisted with Loan Program funds are reasonable
- that other funds needed by the project have been committed
- that the assisted activity cannot obtain any or all of the financing from the private sector and it therefore avoids substituting Loan Program funds for other sources
- that the project is feasible
- that the return on owner's investment will not be unreasonably high
- that Loan Program funds are disbursed on a pro rata basis with other funds in the project, or that other consideration has been given to other means to safeguard Loan Program funds
- to make provisions to ensure the full repayment of the loan and to protect the Loan Program's interests

1. Project Cost Reasonableness

The review of each project or activity receiving Loan Program funds, should address the reasonableness of project costs. The intent is to determine an appropriate level of public assistance. Each element of project costs will be reviewed and evaluated. In general, proposed costs will be supported by third-party or fair market price quotations. However, knowledge and experience of the reviewer or reviewing team and/or common sense, or a cost analysis by the reviewer is acceptable for less costly elements of a project. Verification of cost elements by conducting a cost analysis using appropriate estimating manuals or services is also acceptable.

Cost elements or components which will be carried out through a non arms-length transaction will be carefully scrutinized. A non-arms-length transaction occurs when the entity implementing the Loan Program assisted activity procures goods or services from itself or from another party with whom there is a financial interest or family relationship.

2. Commitment of all Project Sources of Financing

The LDC shall review all projected sources of financing necessary to carry out the economic development project reflected in each loan application. To the extent practicable, prior to the commitment of Loan Program funds to the project, the LDC shall verify that: sufficient sources of funds have been identified to finance the project; all participating parties providing those funds have affirmed their intention to make the funds available; and the participating parties have the financial capacity to provide the funds.

3. Avoid Substitution of Loan Funds for Non-Federal Financial Support

The Glenville LDC shall review the economic development project loan applications to ensure that, to the extent practicable, Loan Program funds will not be used to substantially reduce the amount of non-Federal financial support for the activity. To reach this determination, the LDC shall conduct a financial underwriting analysis of the project for which Loan Program funds are sought, including reviews of appropriate projections of revenues, expenses, debt service and returns on equity investments in the project. The extent of this review will be appropriate for the size and complexity of the project and may use industry standards for similar projects, taking into account the unique factors of the project such as risk and location.

4. Project Financial Feasibility

The applicant for Loan Program funds must provide information which demonstrates that the proposed project for which Loan Program funds are sought is feasible. The term “project” means the activity or group of interrelated activities which are to be carried out by the applicant and all public and private participating parties. A project would be considered financially viable if all of the assumptions about the project's market share, sales levels, growth potential, projections of revenue, project expenses and debt service (including repayment of the loan assistance if appropriate) were determined to be realistic and met the project's break-even point (which is generally the point at which all revenues are equal to all expenses).

Project feasibility includes but is not limited to: (1) evidence that costs, both capital and operating are reasonable; (2) that a reasonable, well thought out business plan exists; (3) that appropriate management, and financial accounting capabilities are in place; (4) that there is a market for the proposed products and that a reasonable marketing plan is in place; (5) that revenue estimates are reasonable and that all sources of project funds, other than from the Loan Program funds, are firmly committed or can reasonably be expected to be firmly committed prior to loan closing.

In determining project feasibility, the LDC shall examine the information and documentation it deems necessary to make an informed judgment which shall include but not be limited to the following:

- Credit Bureau Reports
- Commitments of Other Funding Sources (i.e., bank confirmations)
- Personal Financial Statements
- Project Capital Cost Estimate and Equipment Quotes
- Working Capital Needs
- Projection of Income Operating Expenses and Cash Flow and Net

- Profit Before Depreciation and Taxes
- Employment Projections
- Evidence of Equity and Other Firm Financial Commitments
- Project feasibility issues that are not satisfactorily resolved are an appropriate reason for loan refusal

5. Return on Owner Investment

To the extent practicable, the assisted activity should provide not more than a reasonable return on investment to the owner of the assisted activity. The amount, type and terms of the Loan Program funds provided may be adjusted to allow the owner a reasonable return on his/her investment given industry rates of return for that investment, the local conditions and the risk of the project.

6. Disbursement of Loan Funds on a Pro Rata Basis

To the extent practicable, Loan Program funds used to finance economic development activities will be disbursed on a pro rata basis with other funding sources. In situations where it is not practicable to disburse Loan Program funds on a pro rata basis, consideration will be given to other means to safeguard loan funds in the event of default.

C. Public Benefit Goals and Standards

All loans to businesses are intended to facilitate the creation of jobs.

1. <u>Program Goal</u> (Not Mandatory)
   The Loan Program Goal is to provide assistance which is no more than $15,000.00 in loan funds per full time equivalent, permanent, job created.

2. <u>Program Requirements</u> (Mandatory) 570.209(b)(2)
   The following public benefit standards are mandatory and shall apply to all direct financial assistance (loans) to businesses (projects), which are determined to meet the National Objective requirements of benefitting low and moderate income persons through the creation/retention of jobs:
   - The project or activity receiving Loan Program funds must create or retain at least one full time equivalent permanent job per $35,000 of loan funds. (NOTE: Higher per job costs may be considered on an individual basis provided mandatory limitations are maintained in the aggregate.)
   - Determination that an activity results in a reasonable public benefit is presumed to make the activity “appropriate” for the expenditure of public funds.

- Review of proposed eligible activities must document that sufficient public benefit can reasonably be expected before the activity is funded.
- Actual public benefits (results) must also be documented.

D. Additional Project Review Guidelines

In addition to basic eligibility determinations, and the application of the underwriting and public benefit standards, the following issues will be addressed in considering activities that propose to use the program loan funds. These guidelines are intended to provide criteria for assessing requests for funds while maintaining flexibility in final determinations regarding loan amounts, rates, and terms.

1. Eligible Uses of Loan Proceeds

Loan funds are to be used to provide assistance to local businesses to enable such entities to facilitate economic development.

Loan proceeds may be used for the following:

a. purchase of capital equipment;
b. acquisition and/or new construction;
c. renovations and/or additions to facilities; (see note below)
d. inventory;
e. working capital.

NOTE: The use of loan funds for construction activities triggers federal Davis Bacon Wage Rate requirements for the entire project. To the extent possible loan program assistance should be structured to assist with equipment, inventory or working capital.

2. Loan Amount

There is no maximum loan amount for any one project. The specific loan or amount of assistance for any single project shall be determined on a case by case basis by the Glenville LDC with the advice and assistance of the Loan Committee, its staff and/or consultant.

The minimum loan request that may be applied for shall be $2,500. The amount of the approved loan will depend on the assessment of several factors associated with an individual project. These factors include but are not limited to the following: evidence of the need for the Loan Program funds and evidence of project feasibility; the potential for job development and growth; the number of jobs created by the project.

3. Rate, Terms and Conditions of Loan Program Loans

The interest rate, repayment terms and any other conditions will be determined on a case-by-case basis. In general, the needs of the applicant and the economics of the project as set forth in the applicant's pro-forma will be the primary consideration. A further consideration, however, is the LDC's need to have loans repaid as quickly as possible so that the funds can be re-loaned to facilitate additional economic development projects. LDC loan funds are intended to help businesses grow and succeed and attain a sound financial position. Therefore, LDC loans may provide for an amortization period that reflects the nature of the loan, (i.e., 5-7 years for equipment) but may also include a "balloon" payment within 3-5 years. For example, a loan for equipment with a 7 year useful life may have a 7 year amortization period but have a "balloon" payment due at the end of the fourth year. In effect, the term of the loan is four years. The underlying assumption of this approach is that the borrower should be able to refinance the LDC loan with private lenders by the fourth year allowing the LDC to recoup its investment, making the LDC loan funds available to assist new economic development opportunities. The guidelines for determining rate, terms and conditions are set forth as follows:

a. Rate

In order to promote and encourage economic development activities the LDC will offer loan assistance at a reduced interest rate. The LDC may vary the interest rate and term of the loans on a case by case basis depending on the needs of the applicant and the economics of the project.

The LDC will determine the interest rate based on a case by case consideration.

b. Amortization Period and Loan Term

The amortization period will be tied to the use of the loan proceeds and the subsequent risk associated with each loan type. For example, loans for working capital and inventory represent a greater risk generally because there is little or no collateral on the loan. Loans for equipment purchase or building construction are generally less risky because the loans can be secured by a mortgage or lien on the equipment. However, as noted above, the LDC may structure its loans to include a "balloon" payment due in the early years of the amortization period to repay the principal balance remaining on the loan. The following is a general guide for establishing amortization periods and loan terms:

Use	Amortization Period	Loan Term with Balloon Payment Due at the End of the Term
Equipment	*Useful Life of Equipment or 5-7 years whichever is less*	*Two to four years*
Renovations, etc.	*Up to 20 years*	*Five to seven years*
Inventory	*Up to 3 years*	*One to two years*
Working Capital	*Up to 5 years*	*Two to Three years*

The amortization schedule and term of the loan will depend upon the type of loan, the ability of the project to support the debt, and the circumstances of each project. The suggested loan amortization and/or the loan term will come in the form of a recommendation by the Loan Review Committee and staff and/or consultants. The LDC shall determine the appropriate loan term and amortization.

c. Conditions

The LDC shall have the option of approving loans with certain conditions which will vary with the economics of each project. For example, loan approval may allow for payment of interest only for a set period of time. Further conditions may include a "balloon payment" at such time that refinancing using other more conventional sources may be possible.

Such conditions may be included in the recommendations for project approval by committee and/or consultants.

4. Security and Lien Position

The following basic guidelines will be used in determining the loan’s security and lien position for loans made through the Loan Program. It is anticipated that the security to the extent that it is available will be in equipment, land and buildings, assets of a business and/or assets of the business owners or corporate officers.

For each loan approved, the LDC will obtain the best security available.

Where there is not sufficient security available on a fixed asset to be purchased with Loan Program funds, the assets of the borrowing entity and/or principals will be examined to determine if there are other fixed assets available. The borrower shall be responsible for obtaining all evidence satisfactory to the LDC as to the value of the fixed assets given as security at the borrower's sole cost and expense.

All loans will be further secured by a personal guarantee of the individual or individuals who are the partners, members or shareholders of the business.

Recognizing that each proposed project is unique, the LDC will determine the nature and extent of the security and lien position which is acceptable based on the facts and circumstances of each proposed project.

It is recognized that the collateral available to secure a proposed loan is only one of many factors that go into the decision to approve and deny a loan. For each proposed loan the public benefit (i.e., jobs created, tax revenue, etc.) will be weighed against the risks involved (which include the security, feasibility, etc.) as part of the loan decision process.

5. Leverage/Evidence of Other Firm Financial Commitments

The Loan Program is intended to assist start up businesses and existing businesses which are unable to obtain conventional or other government assisted financing. A reasonable level of equity investment is anticipated to be part of these projects and is likely to be the only other source of project financing. However, other sources of financing, both public and private will be pursued and included in the project financing plan to the extent practical. Loan approvals may be conditioned upon evidence of equity or firm financial commitments from other sources prior to loan closing.

Where applicable, the loan applicant will be requested to provide evidence that bank financing is not available or where additional equity or additional private financing sources are unwilling to provide additional capital.

In certain circumstances, depending on the nature of the project, the public benefit and security and at the discretion of the LDC, Loan Program funds may constitute all or a majority of the project financing.

6. Credit Worthiness

The applicant must be current on real property taxes, all mortgage payments, federal and state tax obligations and all other debts. Revolving credit loans (i.e., credit cards) must be a manageable size and be receiving sufficient payments. The borrower must be free from any unsatisfied judgments or other claims which interfere with the lender's rights in the collateral. To facilitate verification of credit worthiness, a credit report may be obtained for each principal or majority stockholder of the business.

Non-compliance with any of the above will be considered an appropriate reason for loan denial. The applicant will, however, have the opportunity to correct any of the above problems. Substantial non-compliance, however, will show a lack of credit worthiness and could be deemed a reason for loan refusal.

VI. LOAN PORTFOLIO ADMINISTRATION

The LDC will maintain appropriate records and will monitor each activity/borrower that receives loan program funds.

The LDC shall document that the actual results of each project or program meet the public benefit standards.

Further, the LDC will periodically monitor each borrower or recipient of program funds to ensure compliance with all loan representations, covenants, and restrictions, etc.

The LDC will verify the progress of each funded activity in terms of achieving the projected level of benefit.

The verification of benefits may include, but not be limited to: review of personnel and/or payroll records to confirm jobs created, by type and skill level, part-time or full time, temporary or permanent; review of tax records including sales tax and property tax paid. The specific records to be reviewed may vary depending on the stated benefits of the approved activity/loan.