

City of Norfolk

Vehicle Parking District
Revolving Loan Fund
Program

**CITY OF NORFOLK
REVOLVING LOAN FUND MANUAL**

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CITY OF NORFOLK REVOLVING LOAN FUND

1.0 INTRODUCTION

The City of Norfolk Vehicle Parking District Revolving Loan Fund (RLF) is designed to increase the diversity of the Parking District's economic base by offering low-interest financing to projects that will stimulate retail activity within the Vehicle Parking District. A revolving loan fund is a program in which loan repayments are "revolved" or recycled to be lent again in the same program. Therefore, the initial funds that capitalize the RLF will be used again to create and retain additional jobs, assist more businesses and provide significant benefits beyond the RLF's initial loans.

2.0 PURPOSE AND OBJECTIVES

2.1 Purpose

The RLF is designed to provide no more than 49% of a project's total financing requirements. In particular, the program is limited to businesses in the Vehicle Parking District.

The goal of the RLF is to assist businesses who wish to start up, expand, improve and/or locate in the Vehicle Parking District. The RLF proceeds can be used to finance capital improvements.

2.2 Economic Objectives/Benefits

The following elements will receive consideration in the selection of loans for the RLF program:

1. The potential for long term existence.
2. Linkages with the area's existing economy that would permit a business to benefit related businesses.

2.3 Source of Funding

The source of funding for the RLF is Vehicle Parking District revenue. Loans are not funded from the City's General Fund.

3.0 DESCRIPTION OF PROGRAM

3.1 Guidelines and Features

1. Typical Loan Amount: The typical RLF loan amount shall be between \$5,000 and \$50,000.
2. Leveraging: The maximum RLF loan is 49% of total cost of the improvements financed by the loan. Private investment is debt (including SBA loans) or owner equity. Eligible expenditures made by the loan applicant prior to the RLF loan award may be counted when included in the loan application and made within 180 days of submittal.
3. Loan Terms: Loan terms shall not exceed 10 years and may be shorter depending on the asset being financed and the demonstrated need for the RLF funds.
4. Interest Rate: The interest rate shall be three percent (3%), unless the particular needs of the business dictate a different interest rate.
5. Loan Review Fee: The loan review fee shall be \$400.
6. Prepayment Penalty: None.

7. Deferral of Payments: On a case-by-case basis, payments may be deferred if warranted by the financial needs of the business. For start-up businesses no payment will be required for first 90 days.
8. Due on Sale: Loans are non-assumable and due on sale of the property financed.
9. Collateral Requirements: All RLF loans shall be secured by collateral in order to maintain the RLF program. No unsecured loans shall be made. Required collateral may include one or more of the following:
 - a) Liens on real property
 - b) Deeds of trust
 - c) Liens on machinery, equipment and other fixtures
 - d) Personal or corporate guarantees, as appropriate
 - e) Other collateral, as appropriate
 - f) Hazard insurance must be in place for the value of the collateral.

3.2 General Administrative Features

General features of the program include:

1. Confidentiality of client financial information, as allowed by law governing public information. The City considers client financial information proprietary and not subject to public review per Section 84-712.05(3) of Nebraska Statutes.
2. Equal Opportunity/Affirmative Action Policy
3. Attorney review of all contracts and legal forms
4. Monitoring and reporting forms
5. Collection and foreclosure policy

3.3 Project Evaluation Criteria

1. Business must obtain a Bank Commitment Letter or document sufficient equity for balance of project funding.
2. The project must be located in the Vehicle Parking District.

3.4 General Credit Requirements

A loan applicant must:

1. Be of good character.
2. Show ability to operate the business successfully, particularly regarding start-up businesses.
3. Have enough equity or borrowing ability to operate, with the RLF loan, on a sound financial basis.
4. Show the proposed loan is of sound value or reasonably secured as to assure repayment.
5. Show that the past earning record and/or future prospects of the firm indicate ability to repay the loan and other fixed debt, if any, out of the profits.

3.5 Loan Packaging

The two bankers serving on the Loan Advisory Board (LAB) will be responsible for RLF loan packaging activities, including review of all proposals presented to the LAB. Only the bankers on the LAB will see the applicant's financial information. At the discretion of staff, other arrangements, such as contracting with a consultant for loan packaging services, may be undertaken.

3.6 Loan Advisory Board

1. The LAB shall be responsible for reviewing funding proposals and approving loans. The LAB shall be comprised of two members of the City Council, one representative of the Norfolk business community and two Norfolk bankers. The City Council members shall be selected by the Mayor and approved by the Council. The non-City Council members shall be selected by the Vehicle Parking District Advisory Board (Board) and approved by the City Council.
2. LAB members shall serve for four year terms. The initial appointments shall consist of staggered terms with one of the City Council members serving for one year and one for four years. One of the Norfolk bankers shall serve an initial term of two years and the other a initial term of three years. The representative of the Norfolk business community shall serve an initial term of four years.
3. LAB members shall not serve more than two consecutive terms. Members may serve again after being off the Board for at least four years when they are again eligible to serve up to two consecutive terms. There shall be no limit on the number of terms a Board member may serve as long as no more than two terms are served consecutively.

3.7 Review Process

The RLF review process will take place concurrently with the review of the primary lender and be completed expeditiously as possible.

3.8 Fees

The applicant will pay the City \$400 for formal review (including development of project summaries and recommendations) of each loan application received when notified of loan being complete. This fee will be reimbursed to the applicant if the LAB reviews and denies the loan application.

4.0 ELIGIBILITY

4.1 Eligible Applicants

Eligible applicants include on-going and start-up private business concerns, corporations, partnerships, sole proprietorships, limited liability companies and cooperatives located in or expanding to the Vehicle Parking District.

4.2 Eligible Uses

1. Assist projects that will contribute to economic development.
2. Assist commercial and retail projects.
3. Provide permanent or take-out financing for eligible costs incurred not more than 180 days prior to loan approval.

4.3 Ineligible Uses

1. Projects that are not located within the Vehicle Parking District.
2. Projects on which there is not reasonable assurance of repayment of the proposed loan.

4.4 Eligible Costs

1. Capital Improvements.
2. Building construction.
3. Building improvements.

4.5 Ineligible Costs

1. Acquisition of equity in private business.
2. Acquisitions and investments in public or non-profit ventures.
3. Refinancing existing debt, except debt incurred for project costs not more than 180 days prior to loan approval.
4. Distributions to principals of business.
5. Purchase of equipment.
6. Purchase of real estate.

5.0 ROLE OF THE PARTICIPANTS

5.1 Role of the City's Staff

City staff will make daily decisions called for or implied regarding the activities described in preceding sections. Decisions to foreclose and declare default on loans will be the responsibility of the Finance Officer, in consultation with the City Attorney, based among other things upon the recommendations of the staff members who have been assigned to work with a particular applicant. City staff will monitor ongoing operations of the loan recipient and monitor insurance. The Finance Officer is authorized to perform normal loan servicing function such as partial releases of mortgages and deeds of trust when in the best interest of the RLF. Upon satisfaction of the loan, the Finance Officer is authorized to release all collateral.

5.2 Role of the Loan Advisory Board

The LAB shall be responsible for reviewing loan applications and approving loans.

5.3 Role of the Loan Collections Agent

The City may contract with a local bank or other appropriate organization to act as the City's loan collections agent. The duties of the collections agent will include the following: (1) do loan servicing and accounting; (2) do loan collections with City Attorney's consent, including asset liquidation; (3) provide monthly financial reports for the RLF, including individual account status; and (4) obtain credit reports on all loan applicants.

6.0 LOAN SELECTION AND APPROVAL PROCESS

6.1 Process

6.1.1 Marketing

Prospective borrowers learn of the availability of loans through a variety of means. There will be media coverage and marketing brochures. Local bankers will be made aware of the loan program so that they can recommend it to their clients when appropriate. City staff will make public appearances to inform the Norfolk Area Chamber of Commerce, the Downtown Improvement District, the Board of Realtors and other organizations of the availability and extent of the program.

6.1.2 Evaluation

Borrowers shall be approved based upon a reasonable assurance and determination of repayment ability, potential economic benefit to the community and relation to other businesses and services. Loans may be made that more conservative lenders would avoid. This would apply, for example, to viable business start-ups, which are routinely excluded from consideration by most members of the private financial community.

6.1.3 Conflict of Interest

Any LAB member, staff person or professional associated with the RLF shall reveal to the LAB any business relationship (example: CPA) with loan applicant in order to avoid the appearance of any possible conflict of interest. Any LAB member shall declare a conflict of interest and not participate, influence or attempt to influence the deliberations of the LAB when the decision of the LAB will have a material economic effect on a financial interest.

6.2 Procedure

6.2.1 Use of Funds

The RLF will be used specifically to capitalize the loan fund and provide funds to set up and administer the program. The loan fund will not lend more than forty-nine percent of a project's cost.

6.2.2 Application

1. Preliminary discussion between City staff and the prospective borrower for eligibility and rough fit with RLF loan criteria. If another lending program is more appropriate, staff will refer the prospective borrower to that program.
2. Decision by City staff to invite preliminary written information or decline loan request at this point.
3. Preparation and submission by applicant of preliminary information and supporting documents to the bankers on the LAB to include where applicable: business and personal tax returns for the last three years; business financial statements (balance sheet and income statement) for the current year and prior three years; current personal financial statements; credit history; and other applicable information as determined by staff. Start-up businesses must submit proforma financial statements for the first three years.
4. Review of preliminary information by staff.
5. If LAB review is positive, LAB forwards Statement of Intent to accept a formal loan application to the Board. The Statement of Intent does not identify the applicant but merely notifies the Board of the amount of the loan being considered. If LAB review is negative, provide a written explanation of reason for decline should be provided to the applicant.

6. The Board reviews the Statement of Intent to determine if funds are available. If the Board determines funds are available, inform applicant and schedule an application conference if needed. If negative, notify applicant funds are not available.
7. Applicant conferences: review with applicant in detail the formal RLF application checklist and all subsidiary forms and financial schedules determined necessary by staff representative.
8. Applicant submits formal application and all supporting documents, along with \$400 loan review fee.

6.2.3 Review and Decision

1. Review by City staff and LAB bankers of completeness and regulatory compliance; submission of additional information by applicant, as appropriate.
2. Detail review and final recommendation to LAB by staff and LAB bankers, based on loan criteria, strength of business and principals and all other factors. No loan will be recommended for approval without the determination that there is a reasonable assurance of repayment. Recommendation will include what the terms and conditions should be.
3. Submission of complete package, along with staff and LAB bankers' recommendations (i.e. credit memo), to LAB.
4. LAB votes to approve or deny the loan request and what terms and conditions apply. The loan must be approved by three LAB members.
5. Notify applicant in writing. If denied, include reason for denial and return loan review fee.

6.2.4 Loan Closing

1. Upon final approval, the City and the Borrower sign the Loan Agreement, which incorporates the Guaranty Agreement. City staff prepares loan closing documents, with attorney review as necessary, prepares title searches, lien searches, and UCC-1 filings.
2. Loan closing by City staff.
3. Deposit loan review fee of \$400.
4. Disbursement of proceeds by bank according to City's direction in coordination with other funding sources.
5. Completion of any remaining legal, regulatory or housekeeping matters, all to be carried out by staff.
6. Report the amount and terms of loan to the Board and City Council.

Exhibits

- Exhibit 1 Project Evaluation Form
- Exhibit 2 (Preliminary) Loan Application
- Exhibit 3 Project Checklist
- Exhibit 4 Pre-Closing Checklist
- Exhibit 5 RLF Loan Fund Checklist

Exhibit 1

**CITY OF NORFOLK VEHICLE PARKING DISTRICT
LOAN ADVISORY BOARD**

Project Evaluation Form

RLF General Guidelines and Criteria

Company Name: _____

Address: _____

Telephone: () _____

1. Recommendation:

2. Business and Principal(s)

a) Description of Business:

b) Resumes of Principals:

c) Comment:

1. RLF CRITERIA

a) At least 51% of project from non-RLF funding. Yes No

b) Business located or relocating to the Vehicle Parking District. Yes No

1. Does the project result in expansion.... Yes No
of space? Yes No
of sales?

5. Does the cash flow projection account for the new jobs? Yes No

6. Does the project demonstrate a financial gap? Yes No

7. Can this gap be met with equity? Yes No

8. What are the uses and sources of funds?

Sources

Uses

9. RLF STATUS

a) Initial Loan Fund Capitalization: \$_____

b) Total Funds Lent to Date: \$_____

c) Total Revenue to Date: \$_____

d) Total Funds Available to Lend: \$_____

10. FINANCING POLICY

a) Loan size:

Maximum \$50,000

Minimum \$ 5,000

Applicant Request \$_____

b) Maximum term of 10 years

Applicant Request: _____years

Type of loan: _____

Comment:

c) Interest rate for loans will be fixed at 3%.

d) Security required to adequately collateralize loan.

Value of Equity Collateral: \$_____

Value of Collateral After Project Complete: \$_____

Prior Liens: \$_____

Additional Collateral: \$_____

RLF Loan: \$_____

Collateral in Excess of Loans \$_____

IV. NEW/EXPANSION INFORMATION (IF APPLICABLE)

SIZE _____ SQ. FT.

WILL NEW FACILITY REPLACE EXISTING FACILITY? _____

IF REPLACED, WILL RENT BE SAVED OR WILL EXISTING FACILITY BE SOLD? _____

IF RENT SAVINGS – HOW MUCH? \$ _____

FOR HOW MUCH CAN EXISTING FACILITY BE SOLD? \$ _____

PURCHASE PRICE OF NEW FACILITY \$ _____

APPRAISED VALUE \$ _____

WILL PURCHASER OCCUPY ENTIRE SPACE? _____

IF NO EXPLAIN OTHER USES _____

% TO BE OCCUPIED BY PURCHASER: _____

RENTAL INCOME GENERATED: \$ _____

V. PRINCIPAL BANK INFORMATION

NAME OF BANK: _____

CONTACT PERSON: _____

TELEPHONE NUMBER: _____

AVAILABLE LINE OF CREDIT: _____

VI. PROJECT COSTS

NEW CONSTRUCTION \$ _____

REHABILITATION \$ _____

OTHER \$ _____

TOTAL \$ _____

VII. PROJECT FUNDING

RLF \$ _____

BANK \$ _____

EQUITY \$ _____

OTHER \$ _____

TOTAL \$ _____

VIII. PROJECT DESCRIPTION

IX. ADDITIONAL INFORMATION

X. INFORMATION REQUESTED BY LAB (this information will only be available to the two bankers on the LAB and not to staff or other LAB members)

- _____ BUSINESS INCOME STATEMENTS (CURRENT & LAST THREE YEARS)
- _____ BUSINESS BALANCE SHEETS (CURRENT & LAST THREE YEARS)
- _____ PERSONAL FINANCIAL STATEMENTS (CURRENT BALANCE SHEET)
- _____ INCOME TAX RETURNS (LAST THREE YEARS)
- _____ DEBT SCHEDULE
- _____ RESUME (S) OF OWNER(S) BUSINESS HISTORY

XI. INFORMATION REQUESTED BY CITY STAFF AND LAB

- _____ WRITTEN ITEMIZED COST ESTIMATE
- _____ PRELIMINARY PLANS INCLUDING FACADE RENDERING

I/WE HEREBY ACKNOWLEDGE THAT LAB DOES NOT AND CANNOT GUARANTEE THAT I/WE WILL RECEIVE FINANCING FROM THE RLF, OR PUBLIC OR PRIVATE LENDERS. IN ADDITION, RLF FINANCING WILL NOT BE PROVIDED WITHOUT ADEQUATE DOCUMENTATION REGARDING FUNDING OF THE BALANCE OF PROJECT COSTS.

I/WE CERTIFY THE ABOVE INFORMATION IS CORRECT TO THE BEST OF OUR KNOWLEDGE AND BELIEF.

I/WE AUTHORIZE INVESTIGATION OF MY/OUR FINANCIAL AND CREDIT RECORD THROUGH ANY CREDIT AGENCY OR BUREAU.

APPLICANT SIGNATURE: _____

DATE: _____

APPLICANT SIGNATURE: _____

DATE: _____

Exhibit 3

REVOLVING LOAN FUND
PROJECT CHECKLIST

1. Business Information:

- _____ Business Plan
- _____ Resumes(s) of Principal(s) (normally those with 20% ownership of more)
- _____ Articles of Incorporation/By-Laws
- _____ Certificate of Good Standing (obtained for Corporations from Secretary of State)
- _____ Partnership Agreement
- _____ Franchise Agreement
- _____ Fictitious Name Statement
- _____ Limited Liability Company Articles of Organization

2. Project Information:

- _____ Preliminary Title Report on Property to be Improved
- _____ Preliminary Plans and Specifications
- _____ Cost Estimates
- _____ Lease Agreement
- _____ Project Appraisal
- _____ Applicable Permits and Licenses
- _____ Proof of Equity Capital
- _____ Summary of Collateral

3. Financial Information (this information will only be available to the two bankers on the LAB and not to staff or other LAB members):

a. Business:

- _____ Income Statement – past three years plus current (within 60 days)
- _____ Balance Sheet – past three years plus current (within 60 days)
- _____ Aging Schedules of Accounts Receivable/Payable (same date as current Balance Sheet)
- _____ Schedule of Existing Debt (same date as current Balance Sheet)
- _____ Business Federal Tax Returns (past three (3) years) (Used to verify/supplement Financial Statements)
- _____ Income and Cash Flow Projections (next two (2) years)
- _____ Proforma Balance Sheet

b. Personal:

- _____ Personal Financial Statements of Principal Owner(s) (normally those with 20% Ownership of more)
- _____ Individual Federal Tax Returns of Principal(s)

4. Other Information

- _____ Corporate Resolution to Borrow
- _____ Other

Exhibit 4

REVOLVING LOAN PROGRAM
PRE-CLOSING CHECKLIST

- _____ A copy of the construction contract between the business and the general contractor.
- _____ A copy of the final construction/rehabilitation plans.
- _____ A copy of the Construction Contractors Performance Bond (100% Performance, Labor and material Bond – owner as obligee).
- _____ A copy of the building permit.
- _____ A letter from an insurance agent, stating that hazard insurance will be in effect upon closing of the loan, naming the Lender as mortgagee. Insurance should be for the total value of the property.
- _____ A copy of the contractor's workers' compensation and Builders Risk Policy.
- _____ A lien form (UCC-1) on all machinery and equipment to be held as collateral.
- _____ A copy of the purchase agreement between buyer and seller.

Exhibit 5

REVOLVING LOAN FUND CHECKLIST

1. Discuss RLF program with potential clients and make a preliminary determination on eligibility.
2. Review financial statements and project information.
3. Discuss project with City Planning and Development staff to determine eligibility.
4. If the project appears appropriate, prepare a project evaluation after receiving preliminary application.
5. Review preliminary application and project evaluation form.
6. If the project appears reasonable schedule LAB meeting.
7. LAB reviews and if positive, forwards Statement of Intent to District.
8. District determines if funds are available.
9. Finalize application.
10. Distribute copies to LAB members in advance of meeting.
11. Present proposal to LAB for approval.
12. Record and transcribe minutes of LAB meeting.
13. LAB reviews project and approves or denies.
14. Send letter to client outlining conditions, LAB decision and Draft Loan Agreement.
15. Client accepts terms and conditions.
16. Confirm that conditions (obtaining insurance, bank loan, etc.) have been met or are likely to be met.
17. Request funds disbursement.
18. Prepare loan agreement including guarantee agreement, security agreement and promissory note. Have client sign 2 originals (1 to City, 1 to client).
19. Review closing documents.

