



# Rice County Housing & Redevelopment Authority Revolving Loan Fund Program Guidelines

## 1. PURPOSE

The purpose of this document is to establish guidelines for application and administration of the Rice County Housing and Redevelopment Authority's (HRA) Revolving Loan Fund Program. These guidelines are intended to insure fairness and to avoid discrimination in the application of loan procedures. However, as these policies are merely guidelines, departure from the guidelines is expected, when supported by a rational basis for the departure.

## 2. POLICY STATEMENT

**Recognition of Needs:** Rice County HRA recognizes the need to stimulate private sector investment in facilities and equipment in order to create/retain jobs for local residents and to upgrade facilities to maintain competitiveness and/or boost productivity; to provide affordable loans for expansion and/or rehabilitation of commercial and industrial buildings in order to maintain the commercial and industrial viability of Rice County and its communities.

## 3. PROJECT ELIGIBILITY

3.1 Economic Development Revolving Loans can be used for fixed asset financing (i.e. land acquisition, building construction, machinery and equipment, expansion of existing facilities, renovation and modernization of buildings, or public infrastructure needed for economic development expansions).

3.2 **Eligible Geographic Area:** Any project meeting the definition in Section 3.1 and located within the boundaries of Rice County is eligible to receive an economic development revolving loan.

3.3 **Local Contractors, Suppliers, Professionals, and Financial Institutions Favored:** Projects which propose to use local contractors (heating, ventilation, air conditioning, plumbing, electrical), suppliers, vendors, professionals, (e.g. accountants, engineers, and attorneys), and/or financial institutions will be favored when applications are considered by the Rice County Housing and Redevelopment Authority (HRA).

3.4 **Job Creation Requirements:** Projects seeking loans from the HRA which demonstrate job creation will be favored. A minimum of one (1) job must be created to qualify for loan funds.

3.5 **Livable Wage Requirement:** Where jobs created are determined to be an important part of a proposed loan, the minimum total wage/benefit package that must be paid by the borrower in order to receive a loan from the HRA must equal with a minimum wage of at least 100-percent of the median wage for Rice County – *for the particular industry sector that the business is categorized by, in accordance with North America Industry Classification System (NAICS) as per the Rice County and the Rice County Housing and Redevelopment Authority Business Subsidy Policies.*

3.6 **Equity Requirements:** Projects incorporating a significant equity component (at least 10% of project cost) will receive stronger consideration.

3.7 **Local Jurisdiction Participation:** For projects located within city limits, a commitment of participation from the local unit of government is required. This may be waived at the discretion of the HRA.

4. **LOAN AMOUNT**

4.1 The maximum loan available is at the discretion of the HRA with loans not to exceed 75% of the funds on deposit in the Revolving Loan Fund, net of committed funds. *Approving loans for amounts less than requested is at the discretion of the HRA.*

4.2 The aggregate of an HRA loan and private financing may not exceed 125% of the County Assessor's estimated market value or 100% of a certified appraiser's value of the property as valued at the completion of the project.

4.3 Interest rates on a loan may be fixed at an interest rate established by the HRA for the duration of the loan. An interest rate shall be negotiated based upon relevant loan factors.

4.4 Depending on the purpose of the loan funds, the repayment schedule shall have the following general maximum limitations:

| <u>Loan Purpose</u>   | <u>Term</u> | <u>Amortization</u> | <u>Balloon</u> | <u>Extension</u> |
|---|-------------|---------------------|----------------|------------------|
| Land Purchase and/or Construction, Purchase or Renovation of Building | 15 years    | 30 years            | 10 years       | 5 years          |
| Purchase of Machinery and/or Equipment                                | 10 years    | 10 years            | 5 years        | 5 years          |

4.5 Repayment term shall be a negotiated item between the Rice County Housing and Redevelopment Authority (HRA), participating lending institution, and business, but will normally commence the first day of the month after closing of the loan and be due the first day of each month for the duration of the loan. Auto-pay will be required for all loans. Payments past due by more than 15 days will result in a late fee of \$150.00. The loan will be considered in default after thirty (30) days have elapsed past the due date. After thirty (30) days have elapsed, the HRA will make contact requesting payment by written notice. After sixty (60) days have elapsed past the due date the HRA will again discuss the nonpayment and past due balance. If ninety (90) days elapse without payment the HRA will initiate collection efforts. Loans shall be due upon sale of the property or equipment.

4.6 In rare cases where a commitment is made for a future loan, no more than 75% of existing cash on hand shall be committed and loans shall not be committed more than six (6) months into the future.

4.7 **Maximum Loan Per Business:** The maximum loan per business is \$50,000.00 subject to the provisions of Section 4.1 above.

4.8 **HRA Guarantee of Bank Financing:** If a subject borrower has no other loans with the HRA, the HRA may consider a guarantee of bank financing up to the lending limits described in Sections 4.1 and 4.2 above.

5. **REGULATIONS FOR IMPROVEMENTS**

All building construction or renovation is to be in conformance with the applicable building code and other City codes and policies. Repairs may include but are not limited to the following systems and portions of real property.

1. Mechanical - including heating and plumbing.
2. Electrical
3. Structural - including the facade of the structure, the roof, and energy related improvements.

6. **LOAN SECURITY AND GUARANTEES**

- 6.1 Applicant must be able to secure the revolving loan with a first or second mortgage or other acceptable collateral. Joint and several personal guarantees from company owners (greater than 25% ownership) may be required.
- 6.2 The applicant must demonstrate that the building to be constructed or renovated is insured for its full replacement cost.

7. **TIMING OF PROJECT EXPENSES**

- 7.1 Building construction may not commence until all the required permits are secured.
- 7.2 Costs incurred before the loan application has been approved may be considered as eligible expenditures subject to financing by an HRA loan in the discretion of the HRA.

8. **PROCEDURAL GUIDELINES FOR APPLICATION AND APPROVAL**

8.1 **Application and Review**

1. Any interested loan applicant should meet with Rice County staff to obtain information about the Revolving Loan Fund Program and to discuss the proposed project and obtain application forms.
2. A completed application form, together with a processing fee equal to 1% of the amount requested (minimum of \$250.00), must be submitted to the HRA prior to review and consideration. Additional legal and consulting costs that may be incurred by the HRA in the processing of the loan application will be the responsibility of the applicant. The fee is used to cover HRA expenses for processing said application and is non-refundable. Applications (complete with all exhibits and the application fee), received by the 5th of the month will be reviewed and acted upon by the HRA at their next regularly scheduled meeting. Applications deemed incomplete by the HRA staff or committee will be held over until the next month.
3. Applications are reviewed by HRA staff to determine conformity to all HRA policies and local ordinances and to consider the following:
  - a. The availability and affordability of private credit;
  - b. The availability and affordability of other governmental programs;
  - c. Whether the proposed project will result in conformance with the building and zoning and related local codes.

8.2 **Project Review:**

1. The Rice County Economic Development Department shall review each application in terms of its proposed activities in relation to its impact on Rice County. An advisory group will also review each application as outlined in Exhibit A. The advisory group's comments will be considered when the Economic Development Department makes a recommendation concerning funding of the proposed project to the HRA for final approval/denial.

2. After receipt of the project cost summary or estimates, applicant's historical financial and projections of future revenues, the HRA will evaluate the project application in terms of the following:
  - a. Project Design - Evaluation of project design will include review of proposed activities, timeliness and capacity to implement.
  - b. Financial Feasibility - Availability of funds, private involvement, financial packaging and cost effectiveness.
    - (1) Ratio of private funds to HRA Revolving Loan Funds shall be determined based on project eligibility, but a minimum threshold of \$1 private funds for \$1 HRA Revolving Loan Funds will be required.
    - (2) Determination of financial viability of the request. The determination will be completed and presented to the HRA Board for review. See Exhibit "A" to this policy statement.
    - (3) Letter of commitment from applicable business pledging to complete project during proposed project duration if loan application is approved.
    - (4) Letter of commitment from regulated financial institution stating terms and conditions of its' participation in project.
    - (5) The applicant may be required to obtain technical assistance from sources such as the Small Business Development Center prior to approval or release of funds.
3. All applications failing to meet the minimum threshold standards may be reviewed on a case-by-case basis. The HRA reserves the right to waive certain requirements of this program and may request additional information and documentation as deemed necessary.
4. The Rice County Housing and Redevelopment Authority will have final review and approval/denial of applications.

9. **ORIGINATION**

The loan closing will be handled by HRA staff and/or their designee. At the closing the following documents may be required:

- a. Promissory Note
- b. Loan Security Agreement
- c. First or Second Mortgage on property and/or other means deemed necessary
- d. A document authorizing automatic debit of borrower's accounts to pay loan obligations.

10. **RELEASE**

10.1 Upon full and final payment of the Promissory Note, HRA staff shall prepare, have executed, and have delivered to the Applicant all necessary documents to satisfy the Promissory Note, Loan Security Agreement, or Mortgage.

10.2 In the event less than all the Applicants wish to be released from their financial obligations under the Promissory Note, the Applicants shall complete the following requirements:

1. The Loan Applicant wishing to be released shall meet with the HRA staff to obtain information about the Rice County Housing and Redevelopment Authority Partial Release and obtain an application form.
2. A completed application form together with a processing fee equal to \$200.00 must be submitted to Rice County Housing and Redevelopment Authority prior to review and consideration. The fee is used to cover HRA expenses for processing said application and is non-refundable. Applications (complete with all exhibits and application fee) that are received by the fifth (5th) of the month will be reviewed and acted upon by the HRA at its next regularly scheduled meeting. Applications deemed incomplete by HRA, staff, or committee will be held over until the next meeting.
3. The application will be reviewed by HRA staff to determine if it conforms to all HRA policies and local ordinances and to consider the following:
  - a. The availability and affordability of private credit;
  - b. The availability and affordability of other government programs;
  - c. Whether the loan will retain its priority after release of the requester;
  - d. Whether the security of the loan will be unreasonably adversely impacted by release of less than all the applicants;
  - e. The remaining parties must qualify under all HRA loan policy guidelines.

## EXHIBIT A CRITERIA AND EVALUATION

Financial Ratios Guide for Business applications:

1. Current Ratio: total current assets/total current liabilities:
  - a. A rough indication of the firm's ability to service its current obligations.
  - b. Higher the number the better.
  - c. Liquidity ratio (ability to meet current obligations)
  
2. Earnings before interest and Taxes: EBIT/Annual interest expense:
  - a. Measures a firm's ability to meet interest payments.
  - b. Higher ratio the better
  - c. Coverage ratio (ability to service debt)
  
3. Debt to Worth: Total liabilities/tangible net worth:
  - a. Shows how much protection the owners are providing creditors.
  - b. A lower number provides more safety to creditors.
  - c. Leverage ratio (protection given to creditors by borrowers)
  
4. Other ratio's determined to be appropriate.

The Economic Development Department may consult with local bankers for Robert Morris & Association (RMA) ratios for the new or existing business. The banker may print out the appropriate pages from the RMA guides and allow for the Economic Development Department to present their findings to the HRA. The presentation to the HRA will consist of a narrative with ratio's showing the strengths and weaknesses of the credit.

Required Materials in Review Process:

1. Personal Financial Statement(s) from the borrower(s).
2. Two (2) years history, tax statements, balance sheet, and income statements. Projections for a minimum of five (5) years if the business is a start-up.
3. Letter of commitment from the lending institution.
4. Comments in file explaining any requested exceptions to policy.
5. Bids and/or quotes for expenses.
6. Appraisal of real estate or valuation of collateral securing the loan.
7. Credit reports, tax statements, previous UCC filings.