



**City of Marion and Marion Chamber of Commerce**

**Revolving Loan Fund**

**Administrative Guidelines**

**(July 2015)**

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## **PROGRAM ELEMENTS**

### **A. Program Purpose**

The purpose of the City of Marion and Marion Chamber of Commerce Revolving Loan Fund (RLF) is to provide business creation and expansion assistance for small businesses located within the City of Marion boundaries.

### **B. Goals and Objectives**

The City of Marion and Marion Chamber of Commerce supports a diversified economy including small locally owned businesses in the retail, office, services, nonprofit, and food markets. Through the establishment of this RLF, the City of Marion and Marion Chamber of Commerce intends to:

1. Create new jobs and retain existing jobs
2. Aid small business development
3. Increase per capita income
4. Increase the tax base
5. Stabilize and diversify the area economy by providing employers with capital for start-up and/or expansion of locally owned businesses.
6. Redevelop and/or reuse blighted or vacant land and facilities in order to put them to productive use
7. Complement other State and Federal economic development loan programs
8. Aid businesses owned and operated by minorities, women, or by persons who are economically disadvantaged
9. Leverage the minimum amount of public dollars with the maximum amount of private dollars
10. Identify potential sources of additional capital for sustained growth and viability of the fund

### **C. Standards for the RLF Portfolio**

In order to achieve the economic objectives of the RLF and address the financial needs of the area, certain standards have been adopted. These standards, as feasible/possible, include the following:

1. The City of Marion and Marion Chamber of Commerce RLF will be administered by the East Central Iowa Council of Governments (ECICOG) in accordance with Generally Accepted Accounting Principles.
2. The RLF will be administered in accordance with prudent lending practices, defined as generally accepted underwriting and lending practices for public loan programs, based on sound judgment to protect municipal and lender interests.
3. The ECICOG Loan Review Committee will have the responsibility to review all loan applications and to approve or decline RLF financing.

4. ECICOG shall maintain adequate fidelity bond coverage for persons authorized to handle RLF funds through the operations of the program.
5. Borrowers may either be expanding or establishing a business which will address local needs by providing employment within the district and/or within the targeted economic sectors.
6. The RLF will endeavor to target a portion of its funding toward minority-owned or minority-controlled businesses and toward women's business development.

These standards are intended to advance the goals of the RLF toward alleviating the economic distress and financing needs of the region. The structure of this program prohibits RLF funds from being used merely as a substitute for private capital.

#### **D. Financing Policies**

The following financing policies and techniques will be used to achieve the goals of the RLF.

1. RLF funds may be used for working capital, purchase of machinery and equipment, purchase of real property, and/or tenant improvements.
2. Loan terms may vary based on the intended purposes of the loan and at the discretion of the ECICOG Loan Review Committee, but in no event will exceed ten (10) years.
3. The minimum interest rate will be four percentage points (4%) below the current money center prime rate quoted in the *Wall Street Journal* or the maximum interest rate allowed under Iowa law, whichever is lower, but in no event may the interest rate be less than four percent (4%).
4. The ECICOG Loan Review Committee has the authority to negotiate special financing, such as approval of a temporary moratorium on principal payments because of temporary difficulty or extenuating circumstances, which a deserving funded project may be experiencing; the moratorium on principal payments shall not exceed one (1) year.
5. In the determination of collateral requirements, the ECICOG Loan Review Committee may consider the merits and potential economic benefits of each request. When appropriate and practical, RLF financing may be secured by liens or assignment of rights in assets of assisted firms as follows.
  - a. In order to encourage financial participation in a direct or fixed asset loan project by other lenders and investors, the lien position of the RLF may be subordinate and made inferior to lien or liens securing other loans made in connection with the project.

- b. In projects involving direct working capital loans, the RLF will normally obtain collateral such as liens on inventories, receivables, fixed assets and/or other available assets or borrowers. Such liens may be subordinate only to existing liens of record and other loans involved in the project.
  - c. In projects involving guaranteed loans in the revolving phase, the lending institution ordinarily will be required to maintain a collateral position, to which the RLF is subordinate, in the assets of the borrower, such as by taking liens on inventories, receivables, fixed assets, and/or other available assets of borrowers.
  - d. In addition to the above types of security, the RLF may also require security in the form of assignment of patents and licenses, the acquisition of hazard and liability insurance with the City of Marion named as a loss payee as the RLF Loan Review Committee determines is necessary to support the RLF's exposure.
  - e. RLF loan requests submitted by closely held corporations, partnerships, or proprietorships dependent for their continuing success on certain individuals will ordinarily be expected to provide and assign to the RLF life insurance on these key persons.
  - f. Personal guarantees may also be required from principal owners, as appropriate.
- 8. The terms of existing loans may be modified or extended to enhance the capability of the RLF in achieving program objectives.
  - 9. All proceeds from interest payments will be returned to the RLF for additional loans with the exception of that amount used for administrative purposes.

**E. Restriction on Use of RLF Funds**

RLF funds **shall not** be used for any of the following:

- 1. To acquire an equity position in a private business
- 2. To subsidize interest payments on an existing loan
- 3. To enable borrowers to acquire an interest in a business (stock or assets) unless evidence is furnished in the loan documentation that doing so will save a business from imminent closure or will facilitate expansions with an increase in jobs
- 4. To provide funds to a borrower to invest in interest-bearing financial assets
- 5. To refinance existing debt, unless there is sound economic justification

## **F. Conflict of Interest Policy**

For purposes of the RLF program, the conflict of interest policy shall include that:

- An Interested Party of ECICOG or the City of Marion and Marion Chamber of Commerce may not receive, directly or indirectly, any personal or financial benefits from disbursement of RLF loans
- An interested party includes any officer; employee; member of the ECICOG or City of Marion and Marion Chamber of Commerce; those who advise ECICOG on business decisions such as consultants, attorneys, or accountants; or the immediate family , significant other, or domestic partner of an Interested Party
- ECICOG shall not lend RLF funds to an Interested Party
- ECICOG shall not lend RLF funds to a former ECICOG member or his/her immediate family for a period of at least two (2) years since the board member last served on the ECICOG board of directors.
- A person of interest at the City of Marion and Marion Chamber of Commerce and/or committees must declare a conflict of interest and recuse themselves from voting on any matters related to the direct or indirect receipt of funds from the RLF program

## **G. Time Schedule for Loan Closings**

The RLF expects to begin making loans within two months after grant approval and that all loans in the initial round be closed within 1 year of grant approval.

## **H. Related Activities**

In addition to making loans, the RLF expects to aid business development and benefit unemployed workers through the following forms of assistance and services:

1. Loan Packaging and Referral Services. ECICOG professional staff will assist RLF applicants to package their loans so as to enhance private sector participation. All applicants, whether or not funded through the RLF, may be referred to other public programs, e.g. SBA, USDA, IEDA, EDA, HUD, SBDC, and SCORE. When appropriate, applicants will be referred to qualified financial advisors such as bankers or accountants.

## **ADMINISTRATIVE ELEMENTS**

### **A. Loan Review Committee**

The RLF will be administered by ECICOG, a public planning agency originally formed under Chapter 28E, Code of Iowa, and provided for under Chapter 28H, Code of Iowa. ECICOG is governed by a 21-member board of directors representing both the public and private sectors.

### **B. Loan Selection and Approval Process**

The City of Marion and Marion Chamber of Commerce will be responsible for publicizing the availability of the RLF program through the news media, web page, and other internet

resources, and promotional materials. Visits and meetings will be scheduled with area bankers, accountants, Metro Economic Alliance personnel, local government officials, etc. In addition ECICOG will publicize this loan availability through their existing channels. ECICOG staff will be responsible for reviewing and packaging loans for submission to the Loan Review Committee.

The loan packaging process will include:

1. Meeting and interviewing applicants to review all possible alternatives
2. Requiring applicants determined eligible for RLF assistance to furnish financial statements and other information necessary to complete the RLF application form
3. Submitting completed application packages to the Loan Review committee for final review
4. Establishing a loan project file including:
  - a. Loan application
  - b. Loan agreement
  - c. Record of decision
  - d. Promissory note
  - e. Security agreement(s)
  - f. Deed of trust or mortgage (as applicable)
  - g. Notice to, and consent of prior lien holder (as applicable)
  - h. Proof of hazard and liability insurance with City of Marion named as a loss payee

### **C. Loan Servicing**

ECICOG is responsible for the administration, monitoring, and servicing of the loan from loan disbursement through full payment. ECICOG will monitor the loan agreement for defaults in covenants and maintain a loan payment schedule. The loan payment schedule will be kept up to date with payments posted as to principal and interest. All ACH fees will be taken from interest earned from payments monthly.

Delinquencies in payments will be addressed by mail, telephone, or personal visits from ECICOG. Delinquencies may be resolved by loan restructuring, moratorium on payments, or other arrangements consistent with this administrative plan and upon approval of the Loan Review Committee. Unresolved delinquencies may require a loan to be declared in default, and foreclosure procedures may be initiated through the City of Marion's attorney.

### **D. Administrative Costs**

ECICOG will be reimbursed for administration of the RLF program. The sources of funds for these reimbursements will be a single loan processing fee paid by the RLF borrower equal to two percent (2%) of the RLF loan upon approval or \$200.00 whichever is greater. All ACH fees will be taken from interest earned from payments monthly.

In addition, each RLF borrower will reimburse ECICOG for all legal expenses incurred in the closing of each RLF loan. ECICOG reserves the right to renegotiate the fee structure at such time that it proves economically infeasible given the administrative demands of the program.

## **E. Other Requirements**

### Delinquency, Collection, and Write-off Procedures

#### Late Payment Follow-up Procedures

Loan payments are due on the fifteenth day of each month via ACH recurring payments to ECICOG. Loan recipients are informed of the procedures used for delinquent payments at the time of closing. The information is also included in the contract and note, which the loan recipient receives. The City of Marion and Marion Chamber of Commerce is kept informed of any loan recipient that is delinquent on loan repayments. The following are the procedures for the RLF Program:

- After a delinquency of ten (10) days, ECICOG contacts the borrower by telephone to notify.
- After thirty (30) days, ECICOG will provide written notice. A twenty dollar (\$25.00) late fee is charged to the borrower at the thirty (30) day notification for services related to delinquency processing costs.
- ECICOG will make every effort to assist the loan recipient that is delinquent with their loan payments. If no resolution is made, a Loan Review Committee meeting will be called with staff recommendation(s) for action. The Loan Review Committee may approve the restructuring of the loan or suspension of principal payments, with interest only payments, for a specified time period not to exceed one (1) year and at terms consistent with previously stated Financing Policies.

#### Procedures for Handling Loans Over Ninety (90) Days Delinquent

Loan recipients that continue to be delinquent on loan payments, even following assistance from the Loan Review Committee and staff, shall be considered in default of the terms of the loan. The Loan Review Committee must approve to initiate default proceedings against the loan recipient. ECICOG shall give ten (10) days written notice of default to the loan recipient. The City of Marion's attorney will process the necessary documents and initiate the process. The loan recipient is also responsible to pay for attorney's fees and expenses to enforce collection. In all cases, ECICOG/City of Marion and Marion Chamber of Commerce retains the right to initiate civil litigation collection proceedings to obtain a judgment against a borrower and/or initiate foreclosure proceedings in accordance with applicable state laws. ECICOG will consult with the City of Marion and Marion Chamber of Commerce regarding collection proceedings. Any procedures/fees for collection proceedings will be at cost to the City of Marion and Marion Chamber of Commerce.

#### Write Off Procedures



If a loan is in default and proper legal efforts have been taken to collect but are unsuccessful, the City of Marion and Marion Chamber of Commerce can decide to write-off the loan. The loan will become a Bad Debt Expense in the year ECICOG acts on writing off the loan.