

CITY OF RED BUD
Economic Development

REVOLVING MICRO-LOAN PROGRAM

• ***POLICIES AND PROCEDURES MANUAL*** •

Last Revision: August 5, 2013

PREPARED BY:

Red Bud Economic Development Commission

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FOREWORD

The Red Bud Economic Development Commission is an advisory body serving the Red Bud City Council. It was established under Ordinance 817 which was approved on June 6, 1995. Its stated mission is to “study the current status of economic development within the City of Red Bud, to propose strategies to the City Council for retaining existing business and for attracting new industry and retail business, and to suggest policies which would help promote general economic development.”

The historical success of two other City of Red Bud revolving loan programs has led the city to endeavor to create and utilize a third revolving loan program aimed more specifically at small business and business corridor development and retention.

If you are a business owner or prospective business owner and your business is, or will be located in Red Bud, Illinois, the City of Red Bud Micro-Loan Program is designed to provide gap funding to help you succeed. Our goal is to be a financing partner, together with your equity and a conventional (primary) lending institution.

Within this package, you will find all of the forms necessary to apply for a Micro-Loan. Most of the requested information can be easily obtained from your accountant or tax adviser.

Once we have received your completed application, your request will be reviewed by the Red Bud Economic Development Commission and sent with a recommendation to the Red Bud City Council. If you have any questions while completing the application, please call Red Bud City Hall at (618) 282-2315 or email administration@cityofredbud.org.

Matching funds of at least one dollar of private funds for each dollar of program funds must be obtained. Micro-Loan funds will be expended on a first come first served basis and only if revolving loan fund balances are sufficient to entertain meaningful credit applications.

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Section I - General Provisions

1.1 Title

These regulations shall hereafter be known, cited and referred to as the Red Bud Micro-Loan Program Policies and Procedures for the City of Red Bud Economic Development Commission.

1.2 Purpose

These regulations have been established to govern economic development activities assisted with funds made available through the Red Bud Micro-Loan Program (hereinafter referred to as the program).

1.3 Objectives

Economic development activities assisted with funds made available through the program are intended to improve the quality of life for all Red Bud citizens by meeting the following objectives:

- (1) To maintain and promote a diverse mix of employment opportunities.
- (2) To encourage the creation and retention of permanent jobs, which represent a range of wage scales appropriate to the skills and experience of the area labor force.
- (3) To encourage the leveraging of new private investment in the city.
- (4) To maintain a positive business climate which, encourages the retention and expansion of existing business and industry and helps to attract desirable new business and industry.
- (5) To encourage the development of modern technology, green practices, and to promote safe, healthy work environments.

1.4 Amendments

The Red Bud Economic Development Commission is supervised by the Red Bud City Council. The Council may from time to time amend these regulations.

Section 2 – Administration

2.1 Program Roles

- (1) Applications will be reviewed as follows:
 - (a) The application will be reviewed by the Red Bud Economic Development Commission. The Commission will then make a recommendation to the Red Bud City Council.
 - (b) The City Council will make the final approval of the application.
- (2) The Administrative Officer is responsible for providing loan program information to interested applicants, and distributing application materials.
- (3) The City Council's legal counsel may review all loan agreements, review all promissory notes and mortgages or lien instruments.

2.2 Meetings

Meetings shall be held on an as-needed basis. All Economic Development Committee Members shall be given prior notice of each meeting. All regular meeting rules including those relative to a quorum will be in effect.

2.3 Records

Written records of all program activities shall be maintained by the City of Red Bud and by the lending institution.

2.4 Administrative Costs

Revolving Loan income may be used for direct loan administration costs, including the following:

- (1) Legal filing fees for loan agreements.
- (2) Consulting fees to review business plans and/or provide technical assistance with applications.
- (3) Other direct, out-of-pocket expenses and staff costs.
- (4) Credit reports.

*These costs are subject to Rural Development review and approval.

Section 3 - Eligibility

3.1

- (1) Applications may be submitted by the majority shareholder or proprietor of any business or industry wishing to expand an existing operation or establish a new operation in the City of Red Bud. Applicants should be small businesses, defined as a private business, with no buying or selling on the stock market, with less than \$1 million gross income, minus cost of goods sold, and it will not be adding 50 or more NEW employees.
- (2) If any member of the Red Bud Economic Development Commission or the Red Bud City Council, their family, or their employer applies for financial assistance under this program, that Commission or Council member must resign their office or their family member must sell their interest in the applying business. Otherwise, all such applications will be denied.

3.2 Eligible Activities

Program loans shall be available to eligible applicants for the following activities:

- (1) The acquisition of land, buildings, equipment and other fixed assets.
- (2) The construction, expansion or remodeling of buildings.

3.3 Ineligible Activities

Program loans shall not be available for the following activities:

- (1) Refinancing.
- (2) Acquisition of rolling stock.
- (3) Soft costs such as design, promotional activities and legal fees.

3.4 Minimum Requirements

To be eligible for funding the proposed project must meet the following minimum requirements.

- (1) Private Funds Leveraged - The applicant must leverage a minimum of one dollar of private funds for every one dollar of loan funds requested. There must also be one dollar of working capital funds for every dollar of working capital funds requested.
- (2) Demonstration of Need - The applicant must present a viable demonstration need.
- (3) Equity - Applicant must have reasonable equity in the project.

- (4) Financial Feasibility - The applicant must demonstrate that the proposed project is viable and the business will have the ability to repay the funds.
- (5) Location - Activities financed under this program must be located within the corporate limits of Red Bud, Illinois.

Section 4 - Revolving Loan Program

4.1 Definition

Direct loans made on a tandem basis with private financing are available to eligible applicants meeting all the minimum program requirements. Funds will be expended only if Micro-Loan revolving loan fund balances are sufficient to entertain meaningful credit applications.

4.2 Conditions

Loan proposals should be based on need and ability to repay. Minimum standards include the following:

- (1) Loan Amount - Loan amounts are subject to the availability of funds, the scope of the proposed project and the discretion of the Economic Development Commission.
- (2) Interest Rate – The interest rate will be established by the City Council but shall not be higher than 5% annually.
- (3) Term - The term of the loan shall be no longer than five years.
- (4) Period of Payment - The repayment schedule shall be set up for monthly payments.
- (5) Amount of Payment - Interest and principal shall be collected for all of the term to maturity. However, interest and/or principal may be deferred for up to six months if justified in the loan proposal.
- (6) Prepayment - There shall be no penalty for prepayment of loans.
- (7) Collateral - Reasonable security will be required. Collateral shall consist of liens on all assets to be purchased along with additional existing assets as necessary. Personal guarantees of the principals (owners of 20 percent or more of the Company may be required.

Section 5 - Application Procedures

5.1 Discussion of Requirements

Before submitting an application, the applicant shall discuss the program with the Administrative Officer to the Mayor. The applicant shall be provided with the appropriate application forms. *All financial information submitted shall be kept confidential.*

5.2 Time of Application

Applications may be submitted at any time during the calendar year.

5.3 Priority

Applications will be evaluated in the order received.

5.4 Loan Package

Applicants shall submit a loan package consisting of the following information:

- (1) Application - The application will contain information on the project itself (sources and uses of funds), a documentation of need, release of information form, schedules of collateral and person property, personal history and other data.
- (2) Business Description - A written business plan shall be submitted including information on company history, discussion of industry, marketing and sales plans, identification of key customers and suppliers, identification of competition, and other relevant information as required.
- (3) Information on Principals - Resumes and personal financial statements of the principals.
- (4) Financial Information –
 - (a) Information for existing businesses: Businesses must provide the last audited financial statement. If this is not available, a previous year's federal income tax return is acceptable. A current year-to-date balance, income, and financial statement must also be provided. Business owners must also present the most recent personal income tax return and a current personal financial statement.
 - (b) Information for start-up businesses: Businesses should prepare cash flow on a monthly basis for the first year along with two (2) sets of profit, loss, and cash flow projections; one with Loan Program participation and one without. Projections must cover at least two (2) years. A pro-forma balance sheet on date of loan disbursement should also be provided. We recommend that borrowers utilize the services of independent accountants for the preparation

of their financial projections. Business owners must also present the most recent personal income tax return and a current personal financial statement.

- (5) Commitments from Private Lenders - Include documentation of commitments from all private lenders making loans to the project. Lender commitments should include the terms of the loan (amount, interest rate, term, and security required) and a statement that the loan is contingent on financing from the City of Red Bud Micro-Loan Program. It may also be appropriate for the lender to comment on the need for program funds.

5.5 Review Process

Specific steps in the review process include the following:

- 1) Preliminary Review – The Economic Development Commission Finance Sub-Committee will review the application for completeness, eligibility, and creditworthiness. Terms will be discussed with the applicant. Deficiencies in the application will be brought to the attention of the applicant.
- 2) Loan Application Review - The Red Bud Economic Development Commission will then review the application prior to forwarding a recommendation to the Red Bud City Council.
- 3) Notice of Award – Notice of loan approval or denial will be provided by City of Red Bud staff following formal action by the Red Bud City Council

Section 6 - Distribution of Funds

6.1 Loan Procedures

Prior to release of funds, the following terms and conditions must be met:

- (1) Loan Agreement – The Administrative Officer to the Mayor will be responsible for processing the loan agreement.
- (2) Promissory Note and Security Documents - A standard promissory note and appropriate security agreements shall be executed at the time of the closing. Specific terms and conditions will be outlined, and all agreements will be signed by the Chief Executive Officer of the applicant business.
- (3) Repayment Schedule - A repayment schedule shall be provided at the closing. Disbursement of Program Funds - Documentation that matching funds have been committed or expended must be provided to the City of Red Bud prior to release of funds.

Section 7 - Performance Monitoring

7.1 Private Leverage Commitments

Staff will monitor the expenditure of funds and private leverage commitments. Documentation may include invoices or receipts for materials and supplies, letters from lenders, final bills of sale and canceled checks.

7.2 Employment Commitments

Staff shall monitor the hiring of new employees or retention of employees utilizing payroll records. Before-project and after-project payroll documentation will be provided by the business to document job creations.

7.3 Default

Failure by the business to make any payment of principal or interest within 60 days after the payment is due and payable shall be considered a default. Adverse change in the performance of the business, which causes the City of Red Bud to deem itself insecure, shall also be considered a default. If job creation is specified as a part of the loan agreement, failure to create or retain the specified jobs may be considered a default.

In the event of a default, all sums due and owing to the City of Red Bud shall, at the City's option, become immediately due and payable. To exercise this option, staff shall prepare a written notice to the business. The notice shall specify the following:

- (1) The default.
- (2) The action required to repair the default.
- (3) A date, not less than 60 days from the date of the notice, by which the default must be repaired to avoid foreclosure or other action.

Section 8 - Reuse of Funds

8.1 Active Program

Repaid funds shall be deposited into the Micro-Loan revolving loan fund account and used in a manner consistent with the existing Revolving Micro-Loan Program Policies and Procedures Manual.

8.2 Discontinued Program

If the loan program is discontinued, all funds shall revert to the City of Red Bud's Economic Development Revolving Loan Fund, except for such funds provided under any Rural Development grant which shall be returned to Rural Development.