

REVOLVING LOAN FUND COMMERCIAL PROJECTS

GENERAL GUIDELINES FOR LENDING

FINANCIAL INFORMATION

1. A. Applicant shall provide 3 years financial statements including balance sheet, income statement, and tax returns; and/or
B. Such other financial information and data as the Economic Development Dept. may request.
2. Businesses shall be required to provide background of both managers and principals along with personal financial statements of owners. Principals shall include ownership and management entities.
3. Existing businesses shall have positive cash flow for 2 of the previous 3 years including the most recent year.
4. Upon request, borrower shall provide annual financial recaps during the life of the loan. Financial statements shall include a balance sheet and income statement.
5. If applicant is other than a sole proprietorship, personal guarantees are required of all principals.
6. Applicant shall fully disclose all substantial changes of ownership or financial position.
7. Home based businesses are not eligible for RLF loans.

LOAN TYPES & TERMS

MINIMUM LOAN AMOUNT SHALL BE SET AT \$5,000 AND MAXIMUM AT \$40,000

1. Construction (New or Remodel):
 - A. Maximum loan to value shall not exceed 85%. (Loan Amount divided by Fair Market Value: **example** - \$30,000 loan and value of building is \$50,000; Loan to Value in this case would be 60%.)
 - B. Debt Coverage Ratio shall not be less than 1.10 (*Net Operating Income divided by Debt Service: example* - an owner nets \$1,000/month and makes loan payments of \$550/mo; Debt Coverage Ratio in this case would be 1.82.)
 - C. Term to be set by the Economic Development Director and shall not exceed 10 years.
 - D. When required, a current appraisal will be obtained. The borrower shall pay for this service. Flood insurance shall be required in designated flood plain. The City of Wahpeton shall be named loss payee on insurance policy.
 - E. Interest rate shall be fixed at 3% below NY Prime December 31st of each year. Fixed rate shall not fall below 3% nor exceed 7%. **Rate established 1-1-12 through 12-31-12: 3.00%**
 - F. Remodeling of residential apartments or dwellings are not qualified activities, however exterior improvements that benefit both the commercial property and apartments may qualify as determined by the Economic Development Director to be in the best interest of the City.
2. Equipment financing:
 - A. Maximum loan shall be 50% of appraised or book value.
 - B. A purchase money security interest shall be required and proper filing made, prior to the release of funds.
3. Business Purchase:
 - A. RLF loan amount can comprise no more than 30% of the total purchase price not to exceed \$40,000.

- B. The net income, cash flow and balance sheet equity of the purchased business must be positive for most recent fiscal year.
- C. Debt coverage ratio (DCR) must be 1.25X or greater (all debt instruments used by applicant to purchase business must be included in DCR calculation).
- D. Business must be purchased by an individual or in equal partnership with spouse or one other relative or by a closely held entity consisting of 3 or less family members [i.e. LLC, corporation, SubS corp, etc.]
- E. If application is awarded and accepts RLF loan, they agree to retain majority ownership of the business for five years or until after the RLF loan is paid in full, whichever is longer.
- F. The value of the proposed collateral for securing the RLF loan must be equal to or greater than RFL loan amount and must be free of any liens, judgments or other encumbrances.
- G. Applicant must have resided in Richland or Wilkin County for at least 24 months.

THE REVIEW

1. All loan applications shall be reviewed and approved or denied by the Economic Development Director; approved loans shall be serviced through the Economic Development Office. Quarterly summary reports of all applications shall be submitted for review to the City Finance & Economic Development Committee (F&EDC).
2. The total aggregate of all loans to any one individual, corporation, partnership, or structure in which the same individual is a principal, shall not exceed \$40,000.
3. City Revolving Loan Fund monies shall not be used in concert with Sales Tax Dollars or any other public funding source (i.e. MIDA Bonds, Urban Renewal Loans, etc.) on any given project unless the composition of the project warrants a combination and/or leveraging of programs.
4. A completed application **and \$150 fee shall be required** on all RLF loan applications. This is non-refundable. Should the application for funding include another RLF product, this fee can cover the second application [i.e. a combined FLEX and RLF loan, one \$150 fee].
5. RLF applicants shall be located within the City's limits as a resident and/or a business for three years prior to the loan application date.
6. Loans shall not be authorized for working capital, inventory, or for the purchase and/or refinancing of real estate. The regional council provides Micro Loans for these purposes.
7. Failure to keep all city taxes and governmental obligations of the applicant (business/person) paid and current shall be a condition of default.
8. Subordinations, Assumptions, and Loan Extensions shall be handled in the same manner as a loan application and review (see number 9 above). A \$150 handling fee will be assessed.
9. Any exceptions to this policy shall be documented by the Economic Development Director.
10. Funds in this program shall be used in conjunction with a lead lender whenever possible.