

Mt. Pleasant Revolving Loan Fund Operations Guide

1. Objective

The Mt. Pleasant Revolving Loan fund was created in 1986 as a result of an economic development Community Development Block Grant from the State of Michigan Department of Commerce to the City of Mt. Pleasant. The purpose of the Revolving Loan Fund (RLF) is to promote economic development within the City of Mt. Pleasant by making financing available to new, expanding, and minority-owned businesses that may not be available elsewhere. The RLF may not be used for residential projects. To the maximum extent possible, loans from the RLF will be targeted to opportunities benefiting low and moderate income individuals. One of three identified national objectives must be met in order to qualify. These are:

1. Job Retention/Creation
2. Elimination of Slum or Blight – Spot Basis/Area Wide Basis
3. Urgent Need

2. Federal and State Requirements

- The RLF lending program promotes job creation at a CDBG cost of no more than \$35,000 per job – with at least 51% of the new jobs being held by low and moderate income persons (“Public Benefit”).
- RLF Loans shall not be substituted for available non-federal funding – including, but not limited to, bank loans and owners cash contributions. RLF Funds are generally limited to no more than fifty percent (50%) of the proposed project costs (“Limited Public Lending”).
- The RLF amount fills the gap between the total funds needed to complete the proposed project and the available funding from all other sources – including, but not limited to, bank loans and owner’s cash contributions (“Gap Financing”).
- Prior to the State of Michigan’s approval of the RLF loan, the RLF lender (City of Mt. Pleasant via Middle Michigan Development Corporation or other contracted designee) shall demonstrate that the product is financially viable and that sufficient non-federal funding is not available (“Justification”).

3. Defined National Objectives

On the basis of specific loan qualification the following criteria will be considered for each qualifying project.

- **Job Retention/Creation** – To consider jobs retained as a result of Community Development Block Grant (CDBG) assistance there must be “clear and objective” evidence the jobs will be lost:
 - Evidence that the business has issued a notice to affected employees or made a public announcement to that effect, or

- Analysis of relevant financial records which clearly and convincingly shows that the business is likely to have to cut-back employment in the near future without the funding, and
 - The project or business must demonstrate that at least 51 percent of the current jobs are held by low and moderate income individuals.
 - The Mt. Pleasant Revolving Loan Fund board will recommend a local wage scale reflective of local wage rates for CDBG assistance levels (Exhibit A)
- **Elimination of Slum or Blight,**
 - **Spot Basis** – Activities under Slum/Blight Spot Basis are activities that eliminate specific conditions of blight or physical decay on a spot basis and are not located in a slum or blighted area. Activities under this category are limited to acquisition, clearance, relocation, historic preservation, remediation of environmentally contaminated properties, and building rehabilitation that is limited to the extent necessary to eliminate a specific condition detrimental to public health and safety. Examples:
 - Acquisition and demolition of a dilapidated property.
 - Rehabilitation of a decayed community center that eliminates code violations that is detrimental to the health and safety of potential users like faulty wiring, falling plaster, or other similar conditions.
 - Preservation of a deteriorated building of historic significances.
 - Financial assistance to a business to demolish a decayed structure and construct a new building on the site.
 - **Area Wide Basis** – Slum/Blight Area Basis which covers activities that address the condition that caused an area to be determined a slum or blighted area. Activities in this area must include at least 25 percent of properties throughout the designated area and experience one or more of the following condition:
 - Physical Deterioration of building or improvements.
 - Abandonment of properties.
 - Chronic high occupancy turnover rates or chronic high vacancy rates in commercial or industrial buildings.
 - Significant declines in property values or abnormally low property values relative to other areas in the community.
 - Known or suspected environmental contamination.

Examples:

- Rehabilitation of substandard housing located in a designated blighted area and where the housing is expected to be brought to standard condition if less critical work is undertaken. Housing must qualify as a commercial structure per State Property Tax criteria.
- Infrastructure improvements in a deteriorated area.

- Economic development assistance in the form of a low interest loan to a business as an inducement to locate a branch store in a redeveloping blighted area.
- **Urgent Need** - Urgent Need activities are designed to meet other community development needs due to an immediate urgency when existing conditions pose a serious and immediate threat to the health or welfare of the community. An Urgent Need condition under this clause must be of recent origin that has recently become urgent, whereby the community is unable to finance the activity on its own and where other financial resources are not available to meet the Urgent Need.

4. Application Requirements and Assurances

Each applicant to the Mt. Pleasant Revolving Loan Fund program shall provide the following:

- Assurance of the compliance with the Civil Rights Act of 1964 and Section 112 of Public Law 9265, amending the Public Works and Economic Development Act of 1965.
- Financial information, balance sheets and income statements, cash flow with supporting statements on a monthly basis for the first 12 months of operation and annually for the first three years.
- Non-Financial information lending viability to the enterprise and principles such as: business plans, resumes, current and pending contracts, etc.
- Applicant must demonstrate adequate insurance for fire, hazard, and normal business insurance on all assets for the term of the loan. Applicant must provide annual renewal certification of insurance to the board throughout the duration of the loan term.
- The applicant shall pay all legal fees incurred by the RLF Board in closing the particular loan which may include the drafting of documents and legal work involved in title insurance.

5. Loan Terms and Conditions

- The duration shall not exceed three (3) years for working capital loans and seven (7) years for fixed asset financing.
- The RLF Board shall customize a "Flexible Repayment Schedule" to fit the Borrower's cash flow needs to ensure loan repayment and enterprise viability.
- The RLF Board shall set a "Market Interest Rate" at least equal to bank lending rates.
- In the event a scheduled monthly payment is received ten (10) days past the due date, a "Late Charge" of 5% of the missed payment amount shall be charged.
- In the event that the RLF loan balances exceed the scheduled amortization by more than double the scheduled monthly payment amount, the interest charge shall immediately increase to the lower of eleven and 00/100 percent (11.00%) or the maximum rate permitted by law ("Default Interest Rate")

- Until the RLF loan is fully repaid, no payments of principal, interest, stock buy-backs, or dividends shall be paid to any owner or related company (“Borrower’s Spending Limitations”)
- The RLF Loan’s repayment shall be secured by all of Borrower’s (and related company’s) present and future personal property and real property, tangible and intangible, wherever located (“Collateral”)
- In order for the RLF Collateral to be “subordinate” to a bank’s claims, the bank shall agree to “Asset Based Lending Formulas” stated in the agreement between the RLF Board and each “senior” lender (“Intercreditor Agreement”)
- The RLF Loan’s repayment shall be guaranteed by each of Borrower’s owners and related companies and each guarantor may be required to provide collateral to secure the “guaranty.”
- A non-owner spouse shall agree to subordinate the right that he or she may have in Borrower’s or guarantor’s real and personal property (“Spouse Agreement”).

Special Considerations – Under each National Objective the following considerations may be given when the RLF Board and State of Michigan deem appropriate

- **Grants or Forgivable Loans** – In certain situations the RLF Board may grant or forgive loans to applicants of a unique nature. The RLF Board will take special consideration for projects of this nature on a case by case basis. CDBG eligibility criteria are applicable in that the transaction must meet one of the three national objectives:
 - Activities benefiting low and moderate income persons.
 - Activities which aid in the prevention or elimination of slums or blight.
 - Activities designed to meet community development needs having a particular urgency.
- **Microenterprise Assistance** – This category authorizes the use of CDBG funds to provide financial assistance to an existing Microenterprise or to assist in the establishment of a Microenterprise. A microenterprise may be defined as “A commercial enterprise that has five or fewer employees, one or more of whom owns the enterprise.” This activity must still comply with one of the three national objectives with the single exception, a microenterprise assistance activity may qualify under the Low to Moderate Income Clientele national objective criteria if it assists an owner and/or persons developing a microenterprise who are Low to Moderate income persons. Microenterprise loans shall not amount to more than \$20,000.

6. Loan Packaging and Processing

MMDC shall be responsible for screening and analyzing applicants prior to submission to the RLF Board in cooperation with the City of Mt. Pleasant staff. MMDC will also work with the applicant to help

identify private and/or public lending sources to assemble a financial package that meets the financing requirements with minimum RLF exposure.

After all required information has been received and reviewed by MMDC, it may be submitted to the RLF Board. The applicant may be invited to address the RLF Board directly. In either case, the applicant must draft an "executive summary" addressing all pertinent aspects of the proposal. This document shall remain confidential until notice has been given to the application to the contrary. Following a complete review by the RLF Board, a decision will be delivered and in any case, the applicant will be notified in writing. Should a project be approved for recommendation to the Mt. Pleasant City Commission for funding, a letter of conditional commitment will be issued with specific conditions outlined.

7. RLF Board

The RLF Board is to be comprised of a cross-section of the community's leadership, as appointed by the Officers of the Middle Michigan Development Corporation Board of Directors. As dictated by the contract between the City of Mt. Pleasant and Middle Michigan Development Corporation (MMDC), the President shall serve as the administrator of the Revolving Loan Fund Board and the Mt. Pleasant City Treasurer shall serve as Treasurer to the Board and fiduciary to the fund. The board shall be comprised of four (4) appointed seats and the Mt. Pleasant City Manager. Appointed seats shall be set for three (3) year terms. RLF Board members shall not serve for more than three consecutive terms. The effective date of the RLF Board member terms shall begin on January 1, 2011 upon appointment by the Officers of the MMDC Board of Directors. Terms may be staggered as needed. Appointees shall include:

- A representative of the Board of MMDC
- A representative of the Small Business Technology Development Center, CMU Research Corporation, LaBelle Entrepreneurial Center, Mid-Michigan Innovation Center, or similar organization.
- Two representatives of the Mt. Pleasant community with expertise necessary to carry out the charge of the board such as:
 - Community Development
 - Industrial and/or business development
 - Accounting and or Finance
 - Commercial Lending

For Further Assistance contact

President

Middle Michigan Development Corporation

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Exhibit A

Wage/HR	CDBG Assistance Per Job
\$Minimum - \$10.99	Up to \$4,000/job
\$11.00 - \$13.99	Up to \$6,000/job
\$14.00 - \$16.99	Up to \$8,000/job
\$17.00 & up	Up to \$10,000/job