

Economic Development Revolving Loan Fund

Policies and Procedures Manual



City of Evansville, Wisconsin

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SECTION 1.

GENERAL PROVISIONS

1.1 TITLE

These regulations shall hereafter be known, cited, and referred to as the Economic Development Revolving Loan Program Policies and Procedures for the City of Evansville, Wisconsin.

1.2 PURPOSE

These regulations have been established to set forth the criteria, which will govern economic development activities to be assisted with funds made available through the City of Evansville's Economic Development Revolving Loan Fund (hereinafter referred to as the Program). This fund will provide financial assistance to eligible businesses seeking to expand or locate their operations in City of Evansville.

1.3 OBJECTIVES

Economic development activities assisted with funds made available through this Program are intended to meet the following objectives:

- 1) To support and foster entrepreneurship in the City of Evansville.
- 2) To maintain and promote a diverse mix of employment opportunities to minimize seasonal or cyclical employment fluctuations.
- 3) To encourage the creation and retention of permanent jobs that represent a range of wage scales appropriate to the skills and experience of the local labor force.
- 4) To encourage new private investment in Evansville.
- 5) 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.
- 6) To encourage the development of modern technology and safe, healthful work environments.
- 7) To promote business opportunities in Evansville.

1.4 AUTHORITY

City of Evansville may from time to time amend the provisions imposed by these regulations. Any such amendments are subject to approval by the Economic Development Committee (hereinafter referred to as EDC). The EDC is charged with the responsibility to update and amend this Economic Development Revolving Loan Fund Policies and Procedures Manual as local, federal and state requirements impact the Program. The EDC shall appoint a five to seven person Loan Review Board. Composition of the Loan Review Board is defined in part 2.1 of this manual.

SECTION 2.

ADMINISTRATION

2.1 PROGRAM ROLES

- 1) The EDC will establish a five to seven member formal Loan Review Board consisting of the Chair and/or another EDC member; one commercial lender; an accountant or an attorney; Rock County's Economic Development Manager; and Evansville Chamber of Commerce and Tourism Executive Director and/or local small business owner(s). The EDC will recommend members to the Mayor, for approval by Common Council. This Board shall have the authority to review the confidential financial matters of applicants in a closed session.
- 2) The Loan Review Board will have authority to review, select, and recommend loan applications to the EDC for recommendation to the Common Council, which has final approval. The Board will have authority to make standards and policy recommendations to EDC for adoption.
- 3) The EDC, or an agent of it, shall explain the Program to prospective applicants, furnish written information, assist applicants in completing applications, and process all requests for funds.
- 4) The City shall review all financial statements and loan amortization schedules; review and approve documentation of the Program expenditures, record security instruments, maintain a separate accounting record.
- 5) The EDC shall report annually to the City of Evansville Common Council regarding the use of program income and disbursements.
- 6) The City shall prepare all loan agreements, mortgage and lien instruments, and review all promissory notes and advise on default matters. City Attorney will review such agreements, mortgages, instruments, notes, etc.
- 7) The City shall verify the installation of all fixed equipment financed with Program funds.

2.2 MEETINGS

Meetings shall be held on an as-needed basis. Pursuant to Section 19.84, Wisconsin Statutes, all Loan Review Board members shall be given prior notice of each meeting. A majority of those present and constituting a quorum shall be required for official Board action to take place on any application.

2.3 RECORDS

Written records of all Program activities, including Program meetings, loan applications, and related documents, shall be maintained in appropriate files. The City of Evansville is a public entity subject to public access of records pursuant to Sec. 19.35 and 19.36 of the Wisconsin Statutes. Records in the possession of the City, or any department or official, may be reviewed or copied by the general public, with limited exceptions. Applicants and loan participants are reminded that complete confidentiality cannot be guaranteed by the City of Evansville. Be sure to identify "trade secret", or "sensitive" information in any submission. The City of Evansville will make every effort to protect this information as confidential, to the extent allowed by law.

The following files shall be established and maintained for each loan recipient:

- (1) Loan Package: All credit and loan information submitted to the City, including all applicable correspondence, shall be placed in a permanent file.
- (2) Loan Closing: The City Attorney shall be responsible for all loan closings. The EDC, or an agent of it, will assist with documentation assembling and recording. All loan recipients will be required to enter into a loan agreement with the City. The collateral requirements will be determined on an individual basis and may include, but are not limited to: mortgages and/or liens on land and buildings; liens on machinery and equipment; and liens on accounts receivable and inventory. This collateral may be subordinated to private sector financial institutions participating in the project to a reasonable extent, if required. In addition, key-person life insurance coverage naming the City as a beneficiary, with a declining balance equal to the outstanding loan balance, and junior liens on all corporate assets may be used where appropriate. Loans issued for fixed assets will be required to

obtain property-casualty insurance for the appraised value of the property being financed, and may be required to have the City listed as an additional insured or loss payee and/or mortgagee, whichever is applicable.

- (3) Records: All relevant recipient information will be tracked and maintained in a file; the file should include the following:
 - 1) expiration dates for property, casualty and life insurance policies;
 - 2) due dates for all financial statements;
 - 3) expiration dates for UCC financing statements, checked three months before due date;
 - 4) dates of annual loan performance and covenant reviews;
 - 5) annual dates of field visits;
 - 6) due dates for property tax payments and notification from borrower for documentation of property tax payments;
 - 7) review dates for job monitoring; and
 - 8) dates on which loan recipients will be notified of changes in repayment amounts.

- (4) Financial Statements: All loan recipients will be required to submit annual financial statements to the City. The City will provide a financial analysis and compare the statement with historical trends and budget. An accountant shall audit the fiscal year-end financial statement. The financial analysis should include: available cash on hand; income and expenses compared with projections; changes in assets to reflect City loan; substantial changes in assets or liabilities; disposition of collateral securing City loan; profitability and available working capital; review of applicable loan covenants; and contact with participating lender to review the status of all outstanding loans.

- (5) Progress Reports: Loan recipient will be required to submit annual progress reports during the outstanding term of the loan. The EDC or the City shall be entitled to perform annual on-site inspections, when necessary and upon notice of default of payment(s), as prescribed by this Manual.
- (6) Field Visits: Following receipt of year-end financial statements, annual field visits will be conducted and reported. The EDC will discuss the annual field visit report findings with recipient; assistance will be offered to resolve and/or change either existing or future program compliance prohibitive issues.
- (7) Repayment Monitoring: All loans must be paid within 30 days of the due date. Late payment penalties in the amount up to 10 percent of the outstanding payment due will be levied for payments that are more than 15 days overdue. Recipient will be notified of deficiency and corrective actions will be discussed. Participating lender(s) will also be notified. All payments shall be applied first to accrued late payment penalties, then to interest accrued, and then to principal.
- (8) Loan Assessments: All loans will be reviewed annually, and at such other times deemed necessary by the City. Annual assessments will follow receipt of the fiscal year-end financial statement, progress report and the annual field visit. All loans will be assessed according to the following criteria: timeliness of payments; maintenance of collateral securing the loan; overall financial condition of business; presence of material liens or lawsuits; and violations of loan covenants. If any of the above conditions exist, the City shall work with recipient to resolve such conditions, including restructuring the loan.
 - a. Should the recipient default on the loan, the account will be turned over to the City Attorney to recover loan proceeds via liquidation of collateral and the exercising of personal guarantees.

2.4 ADMINISTRATIVE COSTS

- 1) Up to ten (10) percent of the Program's income each year may be used for direct loan administrative costs, including the following:

- a. Legal costs for preparing loan documents.
 - b. Consulting fees to review business plans and to provide technical assistance.
 - c. Office supplies and expense such as copying, typing, mailing, etc.; and
 - d. RLF training costs.
- 2) If necessary for the successful administration of the Program, the City may establish a loan origination fee. All fees must go through the revolving loan fund.

SECTION 3.

ELIGIBILITY

3.1 ELIGIBLE AREA

Eligible activities shall take place within the limits of the City of Evansville.

3.2 ELIGIBLE APPLICANTS

- 1) The Chief Executive Officer, President, or owner of any business wishing to establish a new operation, expand an existing operation or start-up a new business in the City of Evansville may submit applications.
- 2) No member of the Evansville Common Council or any other official, employee, or agent of the City who exercises decision-making functions or responsibilities in connection with the implementation of this program is eligible for financial assistance under this program.
- 3) No program loans will be made which are in conflict with Section 946.13 of the Wisconsin Statutes (Private Interest in Public Contract Prohibited).
- 4) Applicant shall not be discriminated against on the basis of age, race, religion, color, handicap, sex, physical condition, developmental disability, sexual orientation or national origin.

3.3 ELIGIBLE ACTIVITIES

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

- 1) The acquisition of land, buildings, and fixed equipment.
- 2) The site preparation and construction, reconstruction or installation of buildings and fixed equipment.
- 3) The clearance, demolition, removal or rehabilitation of buildings and improvements.
- 4) Working capital, workforce development and/or training.

3.4 INELIGIBLE ACTIVITIES

Program loans shall not be available for the following activities:

- 1) Refinancing or reimbursement for expenditures made prior to loan approval.
- 2) Specialized equipment that is not essential to the business operation.
- 3) Residential building, including but not limited to religious and/or education facilities, construction or reconstruction (unless such reconstruction is intended to convert the building to a business or industrial operation).
- 4) Routine maintenance.
- 5) Feasibility Studies or other soft costs.
- 6) Involuntary relocation payments.
- 7) The payment of assessments for sewer, water, street, and other public utilities.

3.5 INELIGIBLE BUSINESS

Program loans shall not be available for the following businesses:

- 1) Speculative investment companies.
- 2) Real estate investment companies.
- 3) Not-for-profit businesses or corporations, unless paying property taxes or a payment in lieu of taxes.
- 4) Lending institutions.
- 5) Gambling operations.
- 6) Non-public (use) recreation facilities.
- 7) Religious organizations and/or groups.
- 8) Education facilities.

3.6 MINIMUM REQUIREMENTS

To be eligible for funding, the proposed project must meet all of the following minimum requirements:

- 1) Matching Funds Leveraged. The applicant must leverage a minimum of one (\$1.00) Dollar of matching funds for every one (\$1.00) Dollar of loan funds requested. Matching funds will be determined on case by case basis and may include in-kind labor hours, equipment purchases, business expenses, etc.
- 2) Demonstration of Need. Provide a balance sheet, income statement and cash flow statement to clearly show the requested loan is necessary to make the project work.
- 3) Cost Per Job Created. At least one (1) full-time permanent position – excluding those filled by owner/partners - must be created for every \$20,000.00 of program funds requested.
- 4) Financial Feasibility and Business Viability. The applicant must demonstrate that the proposed project is viable and that the business will have the economic ability to repay the funds.
- 5) Compliance with Applicable Laws. Applicant shall comply with all applicable local, state, and federal laws and/or codes.
- 6) Project Completion. Projects shall be completed within 24 months from the date of the loan approval. Applicant shall provide the City a schedule not exceeding 24 months for project completion. Timetable should include a hiring schedule, construction completion schedule, and any pertinent information and dates relating to the proposed project.
- 7) Background Check. Satisfactory completion of a Criminal and Financial Background Check.

SECTION 4.

TERMS and CONDITIONS

4.1 DEFINITION

Direct loans are available to eligible applicants meeting all the minimum program requirements.

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 program funds. The maximum amount of any one loan shall not exceed one-third of the total Program fund, at any one time during application submittal. Applicants cannot apply, nor be associated with, more than one Program loan during any given year.
- 2) Interest Rate. The interest rate shall be no less than 1% and negotiable, per the Loan Review Board and subject to EDC approval.
- 3) Terms for Loans.
 - a. Working capital and/or workforce training shall have a maximum term of five years, excluding any deferral period.
 - b. Machinery, equipment, and fixtures shall have a maximum term of seven years, excluding any deferral period.
 - c. Real estate shall have a maximum term of 10 years, excluding any deferral period.
 - d. But in any case, not longer than the term of private financing.
- 4) Period of Payment. The repayment schedule shall be set up for monthly payments. Payments may be made either in person or by mail to the City.
- 5) Repayment. Payment of interest and/or principal may be deferred for up to one (1) year. Interest shall accrue during the

deferment period and shall be added to the principal amount of the loan. Thereafter, interest and principal shall be collected for the remaining term of the loan to maturity.

- 6) Prepayment. No loan shall be subject to any penalty for prepayment prior to the term of the project.
- 7) Collateral. Reasonable security will be required for one hundred (100) percent of the loan. Collateral may consist of a first or second lien on all assets to be purchased with loan proceeds, a lien on all other assets owned and used in the business, or individually owned by the business owners and/or shareholders.
- 8) Background Check. Satisfactory completion of a Criminal and Financial Background Check.

SECTION 5.

APPLICATION PROCEDURES

5.1 DISCUSSION OF REQUIREMENTS.

Prior to submitting an application, the applicant shall discuss the program with the City. An application form shall be provided to the applicant. The EDC, or an agent, shall assist the applicant, as is reasonably necessary, in completing the application. All trade secret, sensitive and financial information shall be kept confidential, except to the Loan Review Board, to the extent allowed by the law.

5.2 TIMING.

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

5.3 PRIORITY.

Applications shall be reviewed in the order received. In the event that fund requests exceed available funds, the following criteria will be used to determine who will be awarded the loan(s):

- 1) Eligibility of the applicants.
- 2) Eligibility of the project to be undertaken.
- 3) The extent to which private funds are to be leveraged.
- 4) The extent to which jobs are to be created.
- 5) The extent to which the loan can be secured.
- 6) Evidence of the ability to repay the loan.
- 7) Demonstration of need.
- 8) Size of the loan requested.
- 9) Timing of the proposed expenditures.
- 10) Completeness of application.
- 11) Other factors as deemed appropriate.

5.4 LOAN PACKAGE.

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

- 1) Application. A completed application form as provided by the EDC or City.
- 2) Business Description. A written description of the business, including the following:
 - a. A brief history of the existing or proposed business including when it started or is to start, type of operation, legal structure, markets, and products.
 - b. Key customers and clients, if requested to verify the soundness of the business plan.
 - c. A brief personal resume of each principal associated with the business including: number of years of experience, educational background, and personal involvement in the proposed or existing business.
 - d. Three years of financial history (if applicable) compiled, reviewed or audited in accordance with generally accepted accounting principles, including balance sheets, profit/loss statements, and accountant notes.
- 3) Project Description. Explain how the business plans to use the requested funds. Include Sources and Uses of funds statement and an 18-month project timeline.
- 4) Commitments from Private Lenders. If applicable, include documentation of commitments from all private lenders making loans to the project. Lender commitment letters should include:
 - a. Descriptions of the type of loan being made by the lender (first mortgage, permanent financing, construction financing, etc.).
 - b. The amount of the loan, interest rate, term, and security.

- c. Statements that the loan is contingent only on the receipt of program financing, if applicable.
- 5) Projections. Provide a balance sheet, income statement and cash flow statement to clearly show the requested loan is necessary to make the project work. These should cover a three-year period or until a break even point is reached and should be based on the assumption that the business will receive the requested loan. Financial statements must be at minimum compiled, reviewed or audited statements in accordance with generally accepted accounting principles, including balance sheets, profit/loss statements and accountant notes.
- 7) Additional Information. The Loan Review Board or the EDC may require additional information as needed, such as a written business plan.

5.5 REVIEW PROCESS

Specific steps in the review process include the following:

- 1) Preliminary Review. The Community Development Director and City Administrator will review the application for completeness and verify that the proposed project meets the minimum requirements provided in Section 3.6. If the application is not complete, city staff will inform the applicant of the deficiencies.
- 2) Background Check. The City shall perform a criminal and financial background check on the applicant(s) and co-signer(s) of the loan before loan closing. Results of the background check shall be kept confidential as allowed by law.
- 3) Formal Review. The Loan Review Board will meet to formally review the application within 45 days of the receipt of a completed application. Once the review is completed, the Loan Review Board will forward its recommendation to the EDC. The EDC will then review and recommend its decision to the Common Council for the City's final approval or denial.

- 4) Confirmation of Terms. Upon acceptance by EDC, the EDC will contact the business in writing to confirm and arrive at a consensus on the terms of the loan, as prescribed by the Loan Review Board.
- 5) Notice of Award. If the application is approved, a meeting will be arranged to execute the necessary loan documents.
- 6) Rejection of Award. If the application is not approved, the EDC shall send a letter to the applicant stating the reasons for the rejection.
- 7) Reconsideration & Resubmission. Deficiencies found in a preliminary review must be corrected prior to scheduling a formal review. Applications that go through a formal review, and are rejected, must verify or document that all of the corrections to said deficiencies have been made before scheduling a subsequent formal review.

SECTION 6.

DISTRIBUTION OF FUNDS

6.1 LOAN PROCEDURES

Prior to releasing funds, the following terms and conditions must first be met:

- 1) Notice of Award. The Loan Review Board must first review the complete application of an eligible applicant. The Board's recommendation is forwarded to the EDC. If approved by the EDC, a Notice of Award will be sent to the business. If the application is not approved, the EDC shall send a letter to the applicant stating the reasons for the rejection.
- 2) Evidence of Permits, etc. If applicable, the applicant must provide documentation that the applicant prior to the release of program funds has obtained all necessary permits, licenses, and any other registrations required.
- 3) Evidence of Program Expenditures. Documentation shall include vouchers or requests for payment, invoices, receipts for materials, approved requests for payment, final bills of sale or canceled checks. All documentation shall be reviewed and approved by the City.
- 4) Fixed Equipment. Fixed equipment financed with program funds must be ordered, purchased, delivered or installed within 6 months of loan closing. Installation of fixed equipment and/or documentation (i.e. invoice) for payments committed for said equipment shall be submitted to the City per loan agreement.
- 5) Loan Agreement. The City prepares a loan agreement, which will be reviewed by the City Attorney and recommended to Common Council and executed by both the Mayor and the Chief Executive Officer, President, or Owner of the business.
- 6) Promissory Note. A promissory note shall be prepared by the applicant or city's attorney and approved by the City Attorney. The Chief Executive Officer, President, or Owner of the business must sign the promissory note at the time of the loan closing. The loan must be dated; it must reference the

agreement between the City and the business; and, it must specify the amount and terms of the loan funds delivered.

- 7) Repayment Schedule. A loan repayment schedule shall be prepared by the City. At the closing, the repayment schedule shall be dated and initialed by both the Mayor and the Chief Executive Officer, President, or Owner of the Business. At that time, the repayment schedule shall be attached to both parties' copies of the agreement.

- 8) Security. Mortgage or lien instruments provided, as the City shall prepare security for all loans, and executed at the time of the loan closing. The City shall record the instrument and place a copy in the project file. The City Attorney will review mortgage or lien instruments.

SECTION 7.

POST APPROVAL REQUIREMENTS

7.1 OBLIGATION OF LOAN RECIPIENT

In addition to the above-mentioned terms and conditions, all applicants shall agree to comply with the following:

- 1) The applicant is expected to create or retain the obligated number of jobs within 24 months of the date of the execution of the Loan Agreement with the City. Failure to create jobs may result in a financial penalty.
- 2) The applicant shall not discriminate on the basis of age, race, religion, color, handicap, sex, physical condition, developmental disability, sexual orientation or national origin in any employment or construction activity related to the use of industrial or business loan funds.
- 3) The applicant shall use the loan money only to pay the cost of services and materials necessary to complete the economic development activities for which the loan funds were awarded and shall permit the City the right of audit/inspection to verify compliance.
- 4) The applicant shall permit inspections by persons authorized by the City of all projects and properties assisted with loan funds. Related project materials shall also be open to inspections, which include, but may not be limited to, contracts, materials, equipment, payrolls, and conditions of employment. The applicant within four (4) working days of the request shall comply with requests for inspection.
- 5) The applicant shall keep such records concerning the economic development work as may be requested by the City. These files shall be maintained for at least three (3) years after completion of the work for which the loan has been obtained.
- 6) The applicant shall submit annual progress reports to the EDC. These reports shall give an update on the project and shall include minimum current and projected employment levels and the financial statements for the period covered.

- 7) The applicant shall maintain fire and extended coverage insurance on the project property required during the term of the business loan. The City shall be listed as "other" or "additional" insured on the policy. Term life insurance may be required of the applicant to cover the loan balance through the life of the loan.

- 8) Applicant must abide by all federal laws where applicable. These include, but may not be limited to: the Civil Rights Act of 1964; the Age Discrimination Act of 1975; the Contract Work Hours and Safety Standards Act; the Copeland "Anti-Kickback" Act; and, all regulations pursuant to these acts.

SECTION 8

PERFORMANCE MONITORING

8.1 PRIVATE LEVERAGE COMMITMENTS

The City may monitor the use of the funds and expenditure of private leverage commitments. Documentation such as invoices or receipts for materials and supplies, letters from lenders, final bills of sale, and canceled checks may constitute the private match of funds and may be monitored by the City

8.2 HIRING OF NEW EMPLOYEES

Job creation will be determined using before-project and after-project payroll records. Failure of the business to provide the number of jobs may be a condition for default unless the business can show it made a good faith effort to create the number of jobs but did not succeed due to reasons beyond its control.

8.3 DEFAULT

- 1) In addition to any other grounds specified in the loan agreement, the following may also be considered as default:
 - a. Failure of the business to make any payment of principal or interest within 30 days after the payment is due and payable.
 - b. Defaulting on other loans with private lenders, per notification letters.
 - c. Cessation of operations or movement of the business or industry from Evansville, WI.
 - d. The business is sold.
- 2) In the event of default, all sums due and owing the City shall, at the City's option, become immediately due and payable. To exercise this option the City shall prepare a written notice to the business. A copy of the default letter will be sent to other secured lenders, the City and the City Attorney. The notice shall specify the following:
 - a. The default.
 - b. The action required to resolve the default.

- c. A date, not less than thirty (30) days from the date of the notice, by which the default must be cured to avoid foreclosure or other collection action.

SECTION 9.

REUSE of FUNDS

9.1 ACTIVE PROGRAM

Repaid funds shall be deposited into a revolving loan account and used in a manner consistent with the then existing Economic Development Revolving Loan Program Policies Manual in effect at the time of Loan Agreement. A separate accounting record shall be kept so that a clear auditable account can be maintained to show how funds have been used.

- 1) Retained Income. The amount of retained cumulative program income shall be in accordance with City policies.
- 2) Reporting. The EDC shall report annually to the City regarding the use of program income.

APPLICATION, AWARD, AND MONITORING PROCESS
ECONOMIC DEVELOPMENT REVOLVING LOAN FUND PROGRAM
CITY OF EVANSVILLE, WISCONSIN

1. INITIAL CONTACT

Applicant discusses program with Community Development Director:

- Objectives
- Eligible Applicants
- Eligible Activities
- Ineligible Activities
- Ineligible Businesses
- Minimum Requirements
- Procedures

2. LOAN PACKAGE

Applicant submits loan package:

- Application
- Business Profile
- Project Description
- Commitment of Private Funds
- Financial Projections
- Background check authorizations

3. PRELIMINARY REVIEW

City reviews loan package to determine if minimum requirements are met:

- Private Funds Leveraged
- Demonstration of Need
- Cost / Job
- Financial Feasibility & Business Viability
- Project Completion
- Background checks completed

4. **FORMAL REVIEW and CONFIRMATION OF TERMS**

Loan Review Board reviews loan package: considers recommendation based on preliminary review; denies or conditionally approves application and forwards to the EDC. If approved, the Board meets with applicant to confirm the term of the loan:

- Interest Rate
- Term
- Period of Payment
- Amount of Payment
- Collateral

The EDC forwards its recommendation to the Common Council for final action.

5. LOAN AGREEMENT

City prepares loan agreement, which is executed by the Mayor and president or owner of the business

6. LOAN CLOSING

Closing documents are executed and funds are distributed:

- * Promissory Note
- * Repayment Schedule
- * Security

7. EVIDENCE OF PROGRAM EXPENDITURES

Business documents program expenditures.

8. MONITORING

City monitors terms of agreement:

- * Expenditure of Private Leverage Commitments
- * Hiring of New Employees
- * Loan Payments
- * EDC provides Annual Reports to Common Council