City of Fresno

Revolving Loan Fund

Administrative Plan

2019

TABLE OF CONTENTS

SECTION ONE: PROGRAM ELEMENTS OF THE PLAN

Executive Summary

The US Department of Commerce Economic Development Administration (EDA) approved Grant #07-39-02434 (CFDA #11.307), an originally issued $600,000 grant to the City of Fresno was granted on September 30, 1980 to establish a Revolving Loan Fund (RLF). In 1989, the EDA deobligated $100,750 of the grant funds resulting in a RLF balance of $499,250. The goal of this RLF is to provide financial assistance to businesses that, while credit worthy, are not able to obtain financing from the private sector.

1. **Goals and Objectives: The goals and objectives of the RLF Program include:**
   A. Improve the City of Fresno economy and reduce unemployment by assisting in the start-up of small businesses.
   B. Improve the City of Fresno economy and reduce unemployment by assisting small businesses to expand sales, profits, services and employment.
   C. Afford woman and minority owned small businesses access to capital that would not otherwise be available to them on reasonable terms or conditions.
   D. Assist in the revitalization and occupancy of vacant commercial and industrial properties within the City of Fresno.

   These goals and objectives are consistent with the City's overall Comprehensive Economic Development Strategy (CEDS).

2. **Identification of the Target Area's Financial Problems:**
   A. **Unemployment/Poverty**: The "Target Area" for the RLF (City of Fresno limits) has suffered from unemployment and poverty rates that have been significantly higher than the national average for decades. In 2018, while the average unemployment rate for the State of California was 4.2%, Fresno County was nearly 80% higher with an average rate of 7.5%. To mitigate this situation, the City has proactively sought resources to improve the economy and encourage business development and job creation. This effort has included obtaining the following State and Federal incentive zone designations in order to create a more business friendly environment to facilitate the creation of jobs and put our residents to work. The RLF Program provides an incentive for banks to participate in various industrial and commercial projects within these incentive zones:
      i. *State of California Enterprise Zone* (eliminated in 2013): The Enterprise Zone (EntZ) boundary encompassed over 19,000 acres and spanned across some of the most economically depressed areas in the city including all of downtown, as well as parts of southwest and southeast Fresno, the airport area, the 99 corridor and all of Blackstone Avenue. It provided State sales and use tax credits for qualified purchases, as well as hiring tax credits to businesses who hired individuals with specific barriers to employment (including those on public assistance, low income, veterans, disabled individuals and ex-offenders)
      ii. *State of California Governor's Economic Development Initiative (GEDI) New Employment Credit (NEC)*: In 2014, the GEDI program replaced the EntZ program and census tracts that had the highest unemployment and poverty in

the state, including all of the former EntZ designated areas, were identified as Designated Geographic Areas (DGAs) for the New Employment Credit. Businesses located within these DGA's are eligible for tax credits for certain qualified new employees.

iii. *Federal Empowerment Zone*: In January, 2002, the City of Fresno received a Round III Empowerment Zone designation designed to stimulate economic development. The program was originally slated to expire in 2008, but subsequent extensions have kept the program alive since then. Businesses in the Fresno Empowerment Zone are eligible for Federal tax incentives designed to encourage investment and expansion. Residents in the Empowerment Zone can benefit from job development and training programs, improving employability.

iv. *Federal Foreign Trade Zone*: The Federal Foreign Trade Zone (FTZ) encourages investment and job creation that will improve the United States balance of trade. The FTZ is a designated area that is considered "outside of the United States" for US customs purposes. The FTZ benefits both the local and the national economy by helping businesses compete on a global level.

v. *Historically Underutilized Business Zone (HUBZone)*: The HUBZone program provides bonus points to qualified small businesses when bidding on Federal contracts. To qualify, 35% of the business' employees must reside in a HUBZone.

vi. *Opportunity Zone*: An Opportunity Zone is an economically-distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment. The City of Fresno has 38 census tracts in its Opportunity Zone designated area.

In addition to these State and Federal incentive programs, the City of Fresno has developed a number of local incentives to assist in improving the business climate. These include:

a. Industrial & Large Office Development Impact Fee Elimination/Reduction (iDIFER) Program: The iDIFER Program reduces or eliminates development impact fees for qualified industrial and large office projects that support, leverage or expand opportunities for the existing industrial or commercial base.
b. Commercial Build Act: The Commercial Build Act offers an exemption of impact fees for the replacement or reconstruction of an existing commercial building or structure on the site that has been destroyed or demolished.
c. Economically Disadvantaged Neighborhoods Act: The Economically Disadvantaged Neighborhoods Act offers an exemption of impact fees for qualified projects located in economically disadvantaged neighborhoods.
d. Economic Expansion Act: The Economic Expansion Act is an extension of the first three local incentives which are considered "Level One" of the Act. It then goes on to further expand the incentives offered at a "Level Two" and "Level Three" which include revenue sharing for qualified larger projects.

e. Enhanced Economic Development Rate (E-EDR): For qualifying businesses expanding or locating in Fresno or Fresno County with a load of at least 200kW, Pacific Gas and Electric offers a reduction of industrial electric rates of up to 25% for up to five years.

B. **Traditional Financing Obstacles**: Commercial banks are the primary source for capital for small businesses. Banks in the Fresno area include a mixture of local, regional and nationwide institutions. Though commercial banks earn a large portion of their profits from lending to businesses, their lending policies often make it difficult for new, woman/minority owned and small businesses to obtain the financing they need for a variety of reasons, including:

   i. Interest Rate Fluctuations – Small businesses may not have the resources to withstand sudden increases in payments caused by interest rate increases. Unfortunately, most banks charge variable interest rates on business loans. The fixed rate offered through the RLF Program eliminates interest rate risk on a portion of the borrowing.
   ii. Cash Flow Requirements – Banks require that businesses have the ability to prove sufficient cash flow from profitable operations over a multi-year period to service any loans under consideration. New businesses do not have the track record established to meet such a requirement. Participation by the RLF Program encourages banks to give credence to pro-forma financial statements.
   iii. Collateral – Banks require that loans to all but the most well-established businesses be fully secured by collateral that is easily valued independently by a recognized authority; easily converted into cash; and margined so that, in a rapid liquidation, there would still be sufficient value to pay off the loan. Newer businesses lack the collateral to adequately secure bank loans. The RLF Program reduces the bank's exposure on a loan with limited collateral.
   iv. Credit Score/Credit History – Because of the work required to underwrite commercial loans, most banks use a credit scoring system for smaller loans and establish minimum loan amounts (whether formally or informally) for "customized" commercial loans. The limited track record and credit histories of new businesses often cause their credit score to be too low; the credit needs for newer and smaller businesses often fall below the minimum loan amount for a customized loan. Involvement by the RLF Program encourages banks to "take a second look" at deals that make sense, but do not match standard criteria.

3. Target Criteria:

CITY OF FRESNO RLF PROGRAM ELIGIBLE	CITY OF FRESNO RLF PROGRAM ***NON***-ELIGIBLE
For Profit Businesses	Not For Profit Businesses
Industrial	Real Estate Investment or Development
Commercial	Consumer
Retail	Acquisition of Business Equity
Service	Investment/Speculation
Ag-Related	

It is the policy of the City of Fresno to emphasize that loans be made to those businesses that demonstrate the greatest long-range economic impact on the community. These include:

A. Industries that show the greatest opportunity for growth in employment and investment;
B. Manufacturing businesses;
C. Industries that will have an important secondary effect in the community such as the processing of agricultural products grown in the area;
D. Businesses that provide a service or product that is not currently available in the area;
E. Businesses that will employ a high percentage of lower skilled workers and hire individuals who have a history of long-term unemployment or seasonable employment; and
F. Businesses located in any of Fresno's Incentive Zones.

Therefore, loans will be made for projects that demonstrate the greatest likelihood of achieving the objectives of the RLF Program as set forth in the preceding portion of this document.

4. Standards for the Revolving Loan Fund Portfolio:

The following are City requirements for the RLF Program portfolio. These criteria are consistent with and in accordance with 13 CFR 307.

A. Cost per job – as a general guide, each borrower must create or save at least one job for every $35,000 of RLF monies loaned. Exceptions may be made so long as the cost per job is maintained for the overall loan portfolio.
B. Long-term or seasonally unemployed – Preference will be given to loan requests where 50% of all jobs created will be given to the long-term unemployed, or seasonally unemployed, consistent with the RLF objectives.
C. Leveraging of private dollars—RLF Funds may finance no more than one third of a total project. Private dollars (loans from non-federal sources and owner investment) must be used to ensure a ratio of two private dollars for every one dollar from the RLF. Exceptions may be made if the leverage ratio of 2:1 is maintained for the overall loan portfolio.
D. Credit not available elsewhere—The purpose of the RLF is to provide financing to borrowers unable to obtain financing at reasonable terms elsewhere. The RLF will not be used to provide more favorable terms. Refinances will be permitted only when the refinancing of debt will keep a business from closing, or where it is necessary to free up collateral to be used as a part of a larger financing package. Documentation to demonstrate credit not available elsewhere will include: a written referral (email, letter or any other form of written communication) from a bank on their inability to lend funds under their guidelines, or a written explanation of reason(s) why credit isn't otherwise available.

5. Financing Policies:

Loans will be available for the acquisition of fixed assets, real property, working capital and equipment. Loans will be made at a fixed rate of interest and will be secured by the asset or other form of collateral.

A. Number of Loans – Loans shall be made according to the RLF resources available.
B. Loan Amount – The loan amount shall be made in an amount appropriate to the project and borrower's ability to service the debt. It is anticipated that loans will range from a minimum of $10,000 and will not exceed 25% of the capital base or $100,000 (subject to increase if more funds granted by EDA at which point should not exceed $250,000).
C. Loan Term – Loan terms shall be structured as appropriate to the project and the asset being financed. Generally, loans secured by real property shall be fully amortized and

not exceed a term of twenty years. Loans made for the acquisition of equipment shall be amortized over the useful life of the asset, but no longer than seven years. Short-term working capital loans secured by inventories and accounts receivable will be made for a term of no more than three to five years

D. Standard Terms for ALL Loans – Standard terms for all loans will be monthly amortizing payments. Consideration of interest only payments for the first six months will be given to those applicants considered to be "start-ups."

E. Equity and Collateral Requirements – The Loan Review Board will review the borrower's equity position and loan collateral as appropriate to the project. A personal guarantee will be required by individuals holding an interest of twenty percent or greater in the project or operating entity. In keeping with the spirit of the RLF Program, lack of collateral shall not be a reason for declining a loan. Every application will be viewed on its own merits.

F. Amortization of Loans – Loans made from RLF proceeds for the purpose of rehab, revitalization, construction and for start-ups will be required to make interest-only payments for the first six months of the life of the loan. Dependent upon the nature of the project, the time may be shortened, but in no case shall exceed 12 months.

G. Restructuring RLF Loans – The Loan Review Committee may recommend revisions to the terms and provisions of a private lender approved RLF loan as it deems appropriate provided such revisions strengthen the borrower's ability to retire the loan obligation thus providing tangible benefits to the borrower.

H. Use of Principal Repayments – Proceeds from principal repayments will be utilized to make additional loans.

I. Interest Rate – Loans to eligible borrowers will be made at interest rates and under conditions determined to be appropriate in achieving the goals of the RLF. The minimum interest rate charged is four (4) percentage points below the lesser of the current money center prime interest rate allowed under State law. In no event shall the interest rate be less than the lower of four (4) percent or 75 percent of the prime interest rate listed in the Wall Street Journal. However, if the prime interest rate listed in the Wall Street Journal exceeds fourteen (14) percent, the minimum RLF interest rate is not required to be raised above ten (10) percent if doing so compromises the ability to implement the financing strategy.

The following rate guideline will be used to determine individual loan rate:

Loan Amount	Prime Rate +
\$10,000 to \$24,999	+3.50
\$25,000 to \$49,999	+3.25
\$50,000 to \$74,999	+3.00
\$75,000 to \$99,999	+2.75
\$100,000 and above	+2.50

J. RLF Loan Fees – Loan fees charged to the borrower shall not exceed two percent (plus \$500) of the loan amount and may be financed.

K. Closing Costs – Borrower will pay for all out of pocket costs for such items as appraisals, title insurance, lien perfection etc….

L. Ineligible Projects – Recipient shall not use RLF Award Funds to:

    i. Acquire an equity position in a private business.
    ii. Subsidize interest payments on an existing RLF loan.

iii. Provide a loan to a borrower for the purpose of meeting the requirements of equity contributions under another Federal agency's loan program.
iv. Enable a borrower to acquire an interest in a business either through the purchase of stock or through the acquisition of assets, unless sufficient justification is provided in the loan documentation. Sufficient justification must include acquiring a business to save it from imminent closture or to acquire a business to facilitate a significant expansion or increase in investment with a significant increase in jobs. The potential economic benefits must be clearly consistent with the strategic objectives of the RLF.
v. Provide funds to a borrower for the purpose of investing in interest-bearing accounts, certificates of deposit, or any investment unrelated to the RLF.
vi. Refinance existing debt, unless:
    a. Recipient sufficiently demonstrates in the loan documentation a "sound economic justification" for the refinancing (e.g., the refinancing will support additional capital investment intended to increase business activities). For this purpose, reducing the risk of loss to an existing lender(s) or lowering the cost of financing to a borrower shall not, without other indicia, constitute a sound economic justification; or
    b. RLF funds will finance the purchase of the rights of a prior lien holder during a foreclosure action which is necessary to preclude a significant loss on an RLF loan. RLF funds may be used for this purpose only if there is a high probability of receiving compensation from the sale of assets sufficient to cover an RLF's costs plus a reasonable portion of the outstanding RLF loan within a reasonable time frame approved by EDA following the date of refinancing.
vii. Serve as collateral to obtain credit or any other type of financing without EDA's prior written approval (e.g., loan guarantees).
viii. Support operations or administration of the RLF Recipient.
ix. Undertake any activity that would violate EDA Property regulations found at 13 CFR part 314.
x. Finance gambling activity, performances or products of a prurient sexual nature, or any illegal activity, including the cultivation, distribution, or sale of marijuana that is illegal under Federal law.

6. Time Schedule for Loan Closing:

Loans shall be closed as soon as practical and in accordance with EDA regulations.

7. Related Activities:

A. *Technical and Management Assistance* – As part of the underwriting process, an assessment will be made of the borrower's technical and management assistance needs to determine whether borrowers can be helped indirectly. When appropriate, borrowers will be provided with referrals to outside agencies such as the U.S. Small Business Administration, Service Core of Retired Executives or community-based organizations such as the Small Business Development Center, Workforce Development Board, Economic Development Corporation Serving Fresno County or local Chambers of Commerce. Referrals may also be made to private business consultants in the area who are capable of developing business plans or providing assistance with marketing, inventory control or production.

B. *Loan Packaging and Referral Service* – Ineligible applicants may be referred to alternative loan packaging providers for the purposes of securing other financing.

SECTION TWO: ADMINISTRATIVE ELEMENTS OF THE PLAN

Loan Administration of the Revolving Loan Fund (RLF):

The City of Fresno may contract with a non-profit, public purpose corporation to act as the Loan Review Board and provide loan packaging and loan servicing. Any such organization must have a loan approval board that includes members who represent a cross section of the area's community leadership (both government and private), minorities and individuals with experience and expertise in business lending.

At least one board member with commercial lending experience will be present for all major loan decisions. To ensure the integrity of the Board's decision process, disclosure must be made of any proposed or potential benefit realized as a result of Board action. Such disclosure must be made to the Board on the public record. Those parties required to disclose would be any Board Member, staff person, employee or professional associated with the Revolving Loan Fund Program; any person related by blood, marriage, law, or member of the household of anyone required to disclose; or anyone with any business relationship with someone otherwise required to disclose. In the event of such a required disclosure, the Board must provide a written determination that the benefit involved is not substantial as to affect the integrity of the Board's decision process and of the services of the officer, employee or professional associated with the Revolving Loan Fund Program or Board Member.

In the event representatives from the financial community who serve on the Loan Review Board have a separate financial interest (excluding regular checking and savings accounts) in a loan applicant, such member will <u>not</u> participate in related loan deliberations.

A. **Conflict of Interest Policy** - The City is a unit of local government who's City Council Members, Loan Administration Board Member and professional staff are chosen to provide public benefit. These persons have a duty to conduct the affairs of the City in a manner consistent with the mission of the City and not to advance their personal interests. This conflict of interest policy is intended to permit the City and its Councilmembers, Loan Administration Board Members and professional staff to identify, evaluate and address any real, potential or apparent conflict of interest that might, in fact or in appearance, call into question their duty to put the interests of the City ahead of their personal interests.
    i. <u>Covered Persons</u>: This policy applies to the City's Councilmembers, Loan Administration Board Members, professional staff and contractors. Each covered person shall be required to acknowledge that they have read and are in compliance with this policy.
    ii. <u>Covered Transactions</u>: This policy applies to transactions between the City and a covered person, or between the City and another party with which the covered person has a significant relationship. A covered person is considered to have a significant relationship with another party if:
        a. The other party is a family member, including a spouse (or domestic partner or significant other), parent, sibling, child, stepchild, grandparent or grandchild. This does not include distant relatives such as cousins, unless the distant relative lives in the same household as the covered person.

b. The other party is an entity in which the covered person has a material financial interest.
c. The covered person is an officer, director, trustee, partner, consultant or employee of the other party.
d. A covered transaction also includes any other transaction in which there may be an actual or perceived conflict of interest, including any transaction in which the interests of the covered person may be seen as competing or at odds with the interests of the City.

iii. Disclosure, Refrain from Influence and Recusal: When a Covered Person becomes aware of a covered transaction, the individual has a duty to take the following actions:
  a. Immediately disclose the existence and circumstances of such covered transaction to the City's City Manager or designated staff person.
  b. Refrain from using their personal influence to encourage the City to enter into the covered transaction.
  c. Physically excuse themselves from any discussions regarding the covered transaction except to answer questions, including Loan Board discussions and decisions on the subject.

iv. Standard for Approval of Covered Transactions: The City may enter into a covered transaction where:
  a. Such transaction does not constitute an act of self-dealing.
  b. The Loan Board determines, acting without the participation or influence of the covered person and based on comparable market data, that such a transaction is fair and reasonable to the City.

The Board shall document the basis for this determination in the minutes of the meeting at which the covered transaction is considered, and shall consult with the City's legal advisor as necessary to ensure that the transaction does not constitute an act of self-dealing.

v. Lending Activities: The following conflict of interest policy shall apply specifically to the City's direct loan programs: No personal or private loans may be made by the City to its Councilmembers or their immediate families as provided in the Federal Regulations, as amended, the State of California and City of Fresno. No member of the City Council or their immediate families may be an officer, director or owner of a small business concern receiving financial assistance from the City. Former City Councilmembers, Loan Administration Board Members and staff are ineligible to apply for or receive loan funds for a period of **two years** from the date of termination of their services.

1. Request for Reconsideration:

Loan applicants turned down by the loan approval board may follow a process of reconsideration. For an applicant to request a reconsideration of their application, they must do so within 30 days after having been declined. A different loan officer will be assigned to handle any further consideration request submitted by the applicant. In order for the reconsideration to be viewed, the following steps must be met:

1. The request must be in writing.

2. All information must be up to date. Financial statements, less than ninety days old, must accompany the request for reconsideration.
3. The applicant must provide clear justification of the reason why the declined application should be reconsidered and approved.

2. Staff Capacity:

The City may contract with a qualified non-profit organization (CITY/CONTRACTOR) to manage the day-to-day administration of the Revolving Loan Fund Program including:

1. Publicity and marketing.
2. Conducting a preliminary screening of loan applicants and determining project feasibility.
3. Completing all loan underwriting.
4. Preparing loan packages.
5. Conducting loan closing.
6. Disbursing loan proceeds in a timely fashion.
7. Providing counseling to delinquent borrowers.
8. Managing overall program performance and monitoring.
9. Complying with all applicable laws, rules and regulations relating to operation of the RLF Program.
10. Providing financial reports for the RLF Program including individual account status.
11. Completing RLF Income and Expense Statements and other reports accurately, completely, and within EDA time requirements.
12. Complying with audit requirements and requests as may be deemed appropriate.

3. Marketing Strategy:

The promotion of the RLF Program will be achieved through the efforts of the City of Fresno and the non-profit entity with which the City contracts for management of the RLF.

The loan administrating entity will work closely with and maintain a good working relationship with the financial community in order to direct businesses to appropriate lending institutions as the needs of a business may dictate. Private-sector banks and other lending institutions will be made aware of the program so that they are able to refer potential clients to the RLF Program. Referred clients from lending institutions obviously would not have met the minimum loan amounts or the requirements through regular lending channels, therefore it is the policy of the City of Fresno RLF Program to consider that borrowers referred from financial institutions will have already met the “credit not available elsewhere” test described in Section One, 4. D.

4. Loan Application Processing Procedures:

The City of Fresno is an equal opportunity lender and treats all applicants equally and fairly. Each applicant will be subject to the following procedures and requirements:

a. **Standard Loan Application Requirements:** All applicants for loans from the RLF shall be required to fill out a standard RLF application form and supply the additional items as indicated in the application. The following list of exhibits is attached to the application and should be submitted as appropriate:
    i. Business history and forecast (include management team, industry statistics marketing niche, etc. Note: A formal business plan is preferred)
    ii. Resumes of owners, partners or key officers and key personnel
    iii. Balance sheets and income statements for the last three years

iv. Complete IRS returns – both business and personal for the last 3 years
v. Current interim balance sheet and income statement (not over 90 days old)
vi. Personal financial statements for each proprietor, partner or shareholder
vii. Cash flow projections and income statement projections for 3 years (1st year monthly)
viii. Schedule of long term debt
ix. List of collateral offered
x. Environmental questionnaire
xi. Aging of accounts payable and/or accounts receivable
xii. Copy of equipment/working capital list and bids
xiii. Site plan
xiv. Earnest money agreements, financial agreements, contract agreements, lease/rental agreements
xv. Copy of bids or cost estimates by contractor
xvi. Schedule for construction start and completion
xvii. Appraisal
xviii. Bank commitment or denial letter
xix. Legal description of property
xx. Evidence of acceptable zoning/land use compliance
xxi. Articles of incorporation, by-laws and certificate of good standing if a corporation/partnership agreement/LLC organization documents
xxii. List of any affiliates and current financial statement for each

b. **Credit Reports:** Credit reports will be obtained on applicants. Other evidence of credit worthiness documented (i.e., indication from participating bank that they have a good credit report on file or that they have good credit record with the bank or documentation of making loan payments as agreed) may be considered if an applicant has no credit references or limited credit references or negative reporting on their credit record.

c. **Appraisals:** Appraisals may be required on real estate pledged for collateral. If the financing is less than $100,000, a real estate valuation from a qualified source may be substituted, such as a county property tax statement valuation. Appraisals done for a participating bank or another third party may be accepted if they are done by a licensed appraiser who is also CITY/CONTRACTOR approved. Appraisals are valid for 6 months after date of appraisal. Appraisals older than 12 months may be updated by the appraiser and used as a current appraisal or accepted if approved by CITY/CONTRACTOR staff.

d. **Environmental Reviews:** CITY/CONTRACTOR has developed and implemented an environmental review process in accordance with the intent of the National Environmental Policy Act of 1969, as amended (P.L. 91-190), as implemented by the "Regulations" of the President's Council on Environmental Quality (40CFR Parts 1500 – 1508) as listed in Section d. paragraph 10 of the Economic Development Administration Revolving Loan Fund Grants, Standard Terms and Conditions. This review process includes the following requirements:
   i. All borrowers will complete an environmental questionnaire if the loan will involve acquiring interest in real property

ii. All real property to be taken as collateral will have an environmental site inspection or environmental site report performed by CITY/CONTRACTOR staff. If site inspection, site report and/or environmental questionnaire indicate the potential for environmental issues that need to be resolved, CITY/CONTRACTOR staff will contact a qualified person, agency or business to further inspect the real property to identify specific environmental issues and provide options to resolve identified environmental issues. CITY/CONTRACTOR will not loan to applicants with unresolved environmental issues related to collateral real property.

The Loan Administration Board will disapprove any loan project which would adversely (without mitigation) impact flood plains, wetlands, significant historic or archaeological properties, drinking water resources or nonrenewable natural resources. CITY/CONTRACTOR staff will review the environmental questionnaires to ensure compliance with the above requirements. A Flood Determination Service and Certificate will be required to meet this guideline. The fee for the Service is $75.00 and will be incurred by the applicant.

e. Historical Building Review: CITY/CONTRACTOR will meet all requirements relating to historical buildings from its funding source agencies, state and federal regulations. CITY/CONTRACTOR staff will list appropriate issues, requirements and resolutions of any issues relating to historical building requirements in its Loan Proposal to the Loan Administration. Meeting all historical building requirements will be a condition to obtaining loan funding.

f. **Collateral and Equity Requirements:** Loan proposals will be evaluated as they adhere to the collateral and equity requirements listed in this revolving loan fund plan under Section One, #5. “Financing Policies”.

g. **Loan Proposals:** Loan proposals will be produced by CITY/CONTRACTOR staff for each loan and provided to the Loan Administration Board prior to the loan decision. The loan proposal may include, but is not limited to the following:

i. Overview – the company’s history, product, capacity and management; a discussion and analysis demonstrating the need for RLF funds and how the RLF is not replacing private lending sources; and job creation. To support the need for an RLF loan, bank support letters will serve as secondary support for the analysis.
ii. Principals – Background and experience of owners.
iii. Market – A discussion of the business’s market and competitive environment.
iv. Financing – Uses and sources of project financing and collateral.
v. Credit Summary or Financial Analysis – An analysis of the business and personal financial condition, credit reports, and repayment ability.
vi. Environmental Issues – Information about any environmental impact and/or required mitigation.
vii. Summary – Usually points out strengths and weaknesses of the proposed loan.
viii. Recommendation – Staff recommendation to the Loan Administration Board including proposed terms and conditions. Each staff recommendation will utilize prudent lending practices.

ix. Other topics that may be discussed in a loan proposal are collateral, jobs, CITY and funding source agency criteria, strengths and weaknesses of application.

h. **Loan Selection and Approval Process:** The following are established regulations for the selection and approval of loans through the RLF:
   i. Applicants will be requested to complete and return a loan application which will include: existing debt schedule, business plan and a source of and use of funds schedule.
   ii. Applicants shall be asked to submit a credit report fee of $15.00.
   iii. Applicants shall provide current and at least three years of past financial statements.
   iv. Approval is based upon a reasonable assurance and determination of repayment ability, potential economic benefits to the community (i.e., job creation), amount of taxes to be paid, relation to other business, and services.
   v. The credit worthiness of the loan applicant will be one of the primary factors for loan approval.
   vi. Applicants will be asked to provide a history of business success.
   vii. It is anticipated that the majority of RLF borrowers will be in a position to continue their operations with little or no further assistance. However, a small percentage may require on-going management assistance.

i. **Screening Process:** As part of the screening process, it will be determined that all prospective RLF loan applicants and projects meet eligibility requirements for the City of Fresno RLF Program. In evaluating applicants, the Loan Review Board should consider the following factors and make note of the results in the official file:
   i. Will minimum job/loan ratio of one job/$35,000 be achieved? If not, will the overall loan portfolio remain at 1:$35,000 or better?
   ii. Is the minimum leverage ratio of 2 to 1 achieved?
   iii. Is there a reasonable assurance of repayment of the loan?
   iv. Will newly created job opportunities likely be filled with employees from the City of Fresno?
   v. Would project financing be otherwise available on reasonable terms without the RLF?
   vi. Will the loan provide repair or improvement to an existing deteriorated structure?
   vii. Will the loan provide significant improvements to the tax base?
   viii. Will the project be an asset to the community through its relationship to the agricultural community of other businesses?

j. **Eligible Project:** If the project is eligible, then a credit report will be obtained and a preliminary loan package will be developed. However, if the project is rejected, all preliminary documentation submitted by the applicant should be returned to the prospective applicant, along with a letter of denial. Should applicant decide to have his/her application reconsidered, he/she must conform to the requirements included in this Administrative Manual under Section 2, #2 “Request for Reconsideration”.

   Once a project is determined to be eligible, the underwriting process will include:

i. Performing a financial and economic analysis of the borrower's financial statements and business plan.
ii. Obtaining the remaining loan package documents from borrower.
iii. Obtaining appraisal reports as appropriate; and
iv. Assembling the final loan package and presenting the loan to the Loan Approval Board for consideration.

Once the Board approves the application, staff will prepare closing instructions and documentation for the escrow and disbursement of funds for closing.

In the event the project is determined to be ineligible and the Loan Review Board declines the loan, staff will:
i. Transmit a letter to the applicant explaining any appeal procedure.
ii. Provide information on alternate sources of funding.

k. Loan Servicing: Loan servicing will include the following:
  i. Reporting and documenting any loan delinquency of one or more payments;
  ii. Assembling post-closing documentation such as hazard and life insurance policies, closing statements, UCC filings and other documents as may be deemed appropriate;
  iii. Creating and maintaining a loan servicing file for each RLF borrower;
  iv. Collecting payments and monitoring loan conditions (i.e., insurance renewal certificates, property tax payments, employment data, etc.)

5. Loan Servicing Procedures

a. **Loan Payment and Collection Procedures:** Borrowers will make loan payments directly to CITY/CONTRACTOR at principle office or by mail. All payments are logged in and marked with the date of receipt, along with any other checks received that day, by the employee handling the mail. Each payment by cash or check is given to the Office Administrator or other appropriate CITY/CONTRACTOR staff to deposit into the bank account for the RLF Program. A copy of the check and deposit record is given to the loan department staff for posting to the borrower's Payment Record Ledger.
Each loan will be individually and separately maintained in the CITY/CONTRACTOR loan portfolio software and loan payments will be recorded for each loan. This record will be referred to as the "Payment Record Ledger". The payment will be posted to the borrower's Payment Record Ledger showing the date and amount of the payment along with the breakdown of principal and interest and the new balance. Each loan client will be invoiced for each payment due and a record of the previous payment will be provided to each loan client showing the application of loan payments to fees, interest and principal.

Each month CITY/CONTRACTOR accounting records are reconciled with CITY/CONTRACTOR Loan Portfolio records to verify that the ledger posting account and amount and the deposit account and amount are correct. This reconciliation is done by loan department staff and accounting staff.

b. **Loan Monitoring Procedures:** A tickler system is used to remind loan staff of insurance expiration dates, financial statements due or other requirements that have regular or expiring terms. Annual site visits, UCC renewals and compliance requirements are examples of tickled items. Financial statements will be required on an annual basis for all existing loan clients and potentially more frequently for start-up business loan clients. Additional reporting to CITY/CONTRACTOR by the borrower may be requested on a loan by loan basis.

c. **Late Payment Follow-up Procedures:** Borrower's Payment Record Ledgers for each loan are checked on a regular monthly basis to find any late payments. A loan that has a monthly loan payment of more than 30 days past due is in technical default, although a loan that has a monthly loan payment less than 90 days past due is referred to as "delinquent" or "past due". If a payment is late, the borrower is notified by staff that the payment is late. A late fee is assessed as per the terms listed in the borrower's loan agreement and the security agreement. If a payment is two months late, the borrower receives a second notification from CITY/CONTRACTOR staff. If a payment is three months late, a letter is sent or other notification is made indicating that the loan is in default and possible actions may be taken. In addition, a personal telephone call or visit will be initiated by CITY/CONTRACTOR staff within 30 days of initial delinquency and subsequently as appropriate. Every effort will be made to work with the borrower to resolve the delinquency. Modification of the terms of the loan will be used only when it can be demonstrated that the modification will improve the ability of the borrower to repay.

d. **Procedures for Handling Loans Over 90 Days in Arrears (Past Due):** If a loan becomes 90 days delinquent, this loan is referred to as in default. CITY/CONTRACTOR staff will make a recommendation to the Loan Administration Board on actions to be taken, such as repossession of collateral, foreclosure, etc. The Loan Administration Board makes decisions on such actions. CITY/CONTRACTOR staff will ensure that all documentation is in order and will contact an attorney if necessary. Notification will be sent to all guarantors indicating their liability. Other lenders will be notified.

   When monies are received by CITY/CONTRACTOR on defaulted RLF loans, these proceeds shall be applied in the following order of priority for EDA funded loans:
   i. First, towards any cost of collections.
   ii. Second, towards any outstanding penalties and fees.
   iii. Third, towards any accrued interest to the extent due and payable.
   iv. Fourth, towards any outstanding principal balance.

   For loans funded through other funding sources, when monies are received by CITY/CONTRACTOR on defaulted RLF loans, these proceeds shall be applied in the order dictated by the funding source agency's policies and procedures.

e. **Restructures:** CITY/CONTRACTOR staff may recommend terms to the Loan Administration Board for restructuring a loan that is delinquent, in default or has the potential for delinquency in order to increase the likelihood of repayment of the loan. The Loan Administration Board shall have the authority to authorize all restructures.

f. **Write-off Procedures:** If a loan or portion of a loan remaining after liquidation of collateral is determined to be uncollectable, it will be written off. The direct write off method of accounting is used. However, collection efforts will continue after the loan is written off until it is determined by the Loan Administration Board that such efforts are no longer cost effective.

6. Administrative Procedures

a. **Procedures for Audits and Accounting:** Financial audits shall be conducted annually consistent with EDA and other funding source agencies audit requirements of all program transactions and a written report shall be provided to the CITY/CONTRACTOR Loan Administration Board. An independent, established, professional auditor shall be retained to conduct the audit of agency records including, if required by Part 2 CFR 200 regulations, a Special Single Audit Report. CITY/CONTRACTOR shall employ recommended generally accepted accounting principles (GAAP) and accounting procedures to record and report all financial transactions. The accounting system will follow grantor regulations and use a double entry system. Monthly financial reports shall be provided to the Loan Administration Board. Each RLF fund is accounted for separately. Income and expense line items are accounted for separately from principal repayments and loans made.

b. **Procedures for Loan Files and Loan Closing Documentation:** Each loan file must contain all of the documentation on that loan or provide reference as to where the required documentation is stored. Included in each file are all documents relevant to the loan including all of the following as they apply to the loan:
   i. Application and any other documents submitted with application, including a business plan;
   ii. Private and/or traditional lender loan commitment;
   iii. Written form of denial (letter, email or other correspondence) from a bank or other traditional lender indicating that credit is not otherwise available on terms and conditions that permit the completion of the project.;
   iv. Loan proposal;
   v. Minutes from the loan board meeting approving the loan and minutes from meetings taking significant action related to the loan;
   vi. Loan Agreement;
   vii. Security Agreement;
   viii. Promissory Note (or Note);
   ix. Trust Deed(s);
   x. UCC filings and searches;
   xi. Insurance Certificates;
   xii. Financial statements, job reports, correspondence, servicing/site visit notes and any other documentation regarding the loan

   The loan files are kept in a fireproof filing cabinet when not being used by CITY/CONTRACTOR staff. Closed loan files and related documents and computer records and all other related records must be maintained over the term of the approved loan and for a three year period from the final date of the loan or according to the requirements of funding source agencies, whichever is the longest period of time.

Denied or withdrawn loan applications and supporting documentation and CITY/CONTRACTOR created documents and forms associated with a denied or withdrawn loan will be retained for a period of one (1) year after the date of denial or withdrawn loan or according to the requirements of funding source agencies, whichever is the longest period of time.

c. **Hold Harmless Policy:** Each CITY/CONTRACTOR applicant is required to sign the Cen Cal Business Finance Group Loan Agreement with submission of a loan application. This form contains a Hold Harmless Statement at Section 4.13: Indemnification. At loan closing, all borrowers will sign loan documents that contain a Hold Harmless Agreement.

d. **Procedures for Complying with EDA Reporting Requirements:** The CITY/CONTRACTOR Loan Fund Manager is responsible for preparing required EDA Semi-Annual Reports, in consultation with the CITY/CONTRACTOR Executive Director and CITY Economic Development Analyst. The CITY/CONTRACTOR is responsible for preparing the required financial reports to EDA as well as ensuring that an independent audit is sent to EDA annually. These reports will be submitted in compliance with the deadlines and regulations established by the EDA.

e. **Procedures for Complying with Other Funding Agency Requirements (if any):** The CITY/CONTRACTOR Loan Fund Manager is responsible for preparing required Quarterly, Semi-Annual and Annual Reports required by the City and EDA. The CITY/CONTRACTOR Loan Fund Manager is responsible for preparing the required financial reports, in consultation with the CITY/CONTRACTOR Executive Director and CITY Staff, as well as ensuring that an independent audit is sent to the funding agency annually, as requested. These reports will be submitted in compliance with deadlines and regulations established by the funding agency covered under this RLF plan.

f. **Grantee Control Procedures for Ensuring Compliance with All Grant Requirements and for Monitoring the RLF Portfolio:** CITY/CONTRACTOR staff maintains a grantee file with copies of all required reports, audits and EDA compliance manuals, Regulations and Standard Terms and Conditions. The forms used for documentation of RLF loans have been reviewed by an attorney.

RLF funds will be made available on a nondiscriminatory basis and no applicant will be denied a loan on the basis of race, color, national origin, religion, age, handicap or sex. A provision is included in the RLF loan documents that prohibit borrowers from discriminating against employees or applicants for employment or providers of goods or services. CITY/CONTRACTOR will monitor borrower compliance with civil rights laws periodically, by reviewing the job reports that will be submitted to the CITY/CONTRACTOR for subsequent reporting to EDA and other funding source agencies.

Confidentiality regarding financial information will be guarded at all times. Confidential information provided to CITY/CONTRACTOR will not be disclosed without the written permission from the client; this includes third party information obtained in confidentiality by client that is not public information. Clients may sign an authorization to release information for marketing purposes which could include, but not be limited to, CITY/CONTRACTOR newsletters, press releases or Chamber of Commerce articles.

No CITY/CONTRACTOR Board, Loan Administration Board or staff member will use his or her official position or office to obtain confidential information or in any other way obtain financial gain for him/herself, other than salary and/or reimbursement of expenses, or for any member of his household, or for any business with which he/she, or a member of his household, is associated.

g. **Sources of Funding to Cover Administrative Costs:** Records will be maintained by the contractor to document and support eligible administrative costs that are charged against RLF income. The contractor will establish a methodology for allocating these costs, and maintain records that shall be made available immediately upon request by the City or any member of the City Management Staff including auditors representing the City/or the City Controller's Office.
   i. In accordance with EDA regulations, as grant funds are disbursed for loans and RLF begins to generate income from lending activities, such income (referred to as "RLF Income"), as distinguished from principal repayments, may be used to cover eligible, reasonable and documented administrative costs necessary to operate the RLF.
   ii. RLF Income and Expense Statements and all other reports will be prepared accurately, completely and within EDA time requirements.
   iii. A reasonable percentage of RLF income will be added to the RLF capital base to compensate for loan losses and the effects of inflation over time, as well as to maintain a minimum funding level for the future borrowing needs within the eligible target area.
   iv. Auditing costs may be reimbursed from RLF Income and from resources of the grant recipient. Audit costs are chargeable against the grant award if permitted in the grant budget and RLF Income to the extent that the costs charged are equitably distributed and reflect the benefits received.
   v. Accurate timesheets, with the time allocated throughout the year to the Program, will be kept with proper manager signoff.

h. **Recapitalization Strategy:** In order to maximize the Revolving Loan Fund for re-lending purposes, all principal repayments and appropriate interest accruals shall be returned to the RLF. Furthermore, RLF income must be added to the RLF for lending, then used for allowable costs, such as staff costs to operate the program. These costs are to be properly documented and included in the semiannual reports.

i. **Loan Loss Reserve:** A loan loss reserve will be established for the loan fund. The reserve is a provision set aside to cover potential loan losses including bad loans, customer defaults and renegotiated terms of a loan that incur lower than previously estimated payments. The loss reserve will be a minimum of $25,000 or equal to 5% of the total fund.

j. Other Requirements:
   i. **Administrative Requirements –** In the event that RLF Income is used to cover all or part of a RLF's administrative costs and in accordance with EDA regulations, CITY/CONTRACTOR must comply with the following provisions:
   ii. **Accounting Records –** CITY/CONTRACTOR must:

i. Maintain accounting records and source documentation to substantiate the amount and percent of RLF Income expended for eligible RLF administrative costs.
ii. Comply with applicable RLF Audit Regulations when charging costs against RLF Income. CITY/CONTRACTOR must retain records for at least three years.
    1. **Collection and Recovery Expenses –** From time to time, borrowers may encounter repayment difficulties that will necessitate collection and recovery efforts by the CITY/CONTRACTOR. The CITY/CONTRACTOR will advance funds necessary for collection and recovery of loans and will, at its discretion, determine when the cost of collection and recovery would exceed the likely value of assets that would be recovered. At such time as the CITY/CONTRACTOR makes such a determination, they may cease collection and recovery efforts and recoup collection and recovery costs from the assets recovered. If recovery value is insufficient, the CITY/CONTRACTOR may use program revenues to recoup collection and recovery costs.
    2. **Administrative Plan Targets –** Loan portfolio reports must be consistent with the specified sets of targets indicated under Section One, 3.
        a. **Monitoring Requirements –** EDA Monitors grant recipients for compliance with the Terms and Conditions of the grant. The grant recipient is required by law to ensure that RLF Program Administrators conform to the same level of standards and comply with all program requirements as stated in the EDA Administrative Manual.
        b. **Financial and Performance Reports –** The City of Fresno as grant recipient (grantee) will require the contractor to submit financial reports as specified in the EDA Regulations and in accordance with the terms and conditions of the Agreement.
        c. **Audits –** The grantee (CITY) will ensure that an audit of the contractors operations is conducted in accordance with EDA audit regulations.
        d. **Non-Performance –** In the event that the contractor fails to submit accurate, clear, timely and satisfactory reports in accordance with EDA Regulations the City, under the terms of the agreement, shall exercise the right to terminate the agreement.
        e. **Equal Opportunities Requirements –** All prospective borrowers shall be apprised of Equal Employment Opportunity requirements upon application. The Revolving Loan Fund Agreement contains a specific assurance from the borrower of compliance with Title VI of the Civil Rights Act of 1964 and further provides that any incorrect representation or warranty made by the borrower shall constitute an event of default.

f. **Relocation –** The location of a loan project must be within the RLF target area. The loan application shall be appraised that relocating the project from the target area will constitute an event of default and the loan would, therefor, become due in its entirety.
g. **New Employees –** To the extent possible, loan recipients agree to hire new employees from public assistance providers.
h. **Plan Amendment Procedures** – Any material modification, such as a merger, consolidation or change in the EDA approved lending area under Federal Regulations, change in critical management staff or a change to the strategic purpose of the RLF must be submitted to EDA for approval prior to any revision of the Plan. If the EDA approves the modification, the RLF recipient must submit an updated Plan to the EDA in electronic format, unless EDA approves a paper submission.

This Plan is authorized for five years from the date of final EDA approval, and supersedes all previous administrative plans under these awards. In the case of any conflicts between the approved Plan and the terms and conditions governing this award, the terms and conditions shall prevail.