CITY OF KENTWOOD
REVOLVING LOAN FUND

SUMMARY OF PROGRAM

The Revolving Loan Fund Program offers assistance in the development and financing of commercial and industrial projects within the City of Kentwood. The purpose of the Revolving Loan Fund (RLF) is to assist business and industry to expand and to create employment within the City. The RLF will not act as the total funding source for any project; equity and private sector participation in the project are mandatory. The maximum Revolving Loan Fund money that may be used per project is limited to forty (40) percent of the total project cost. The standard rate of interest will be set at seventy-five (75) percent of the prime rate at the time of loan application. The loan is to be amortized over with the life of the improvement, with the maximum term of 20 years for real estate and ten (10) years for machinery and equipment. There is generally a balloon payment of the loan balance after five (5) years.

Eligible projects include fixed asset financing for the acquisition and improvement of land, buildings, plant facilities and equipment, including new construction or renovation of existing facilities, demolition and site preparation.

Loans will be reviewed based on the financial viability of the company, the amount of loan compared to the number of jobs created, the availability of funds, and the amount of the loan compared to the amount of equity and private financing.

The Economic Development Corporation (EDC) of the City of Kentwood shall act on behalf of the city in administering the RLF. The EDC will determine the eligibility of the applicant and the necessity of the loan. The EDC will respond within 30 days of the submission of the application for loan request, if all necessary information has been filed by the applicant. Large scale or very complicated financing arrangements may take longer.

Eligible applicants include for-profit industrial or warehousing enterprises, such as a sole proprietorship, partnership or corporation, commercial establishments, service related businesses or public entities.

A one time, up-front commitment fee not to exceed 1% of the loan shall be required for each loan. The commitment fee may be used for processing, legal, and servicing fees incurred by the EDC.

KENTWOOD REVOLVING LOAN FUND

PART ONE – PROGRAM ELEMENTS

I. GOALS AND OBJECTIVES

The purpose of the City of Kentwood Revolving Loan Fund is to create permanent private sector jobs within the City of Kentwood and to expand and retain business and industry within the City of Kentwood.

The fund will provide local business and industry with a potential source of capital to finance expansion projects. The loan is supplemental to traditional private lender financing. Since public sector monies can be offered at lower rates of interest and for longer terms than private funds, the injection of public monies into a project can produce a blended rate of interest which is significantly lower than that which could be obtained with strictly private sector financing. Therefore, the perceived risk of private sector lending to a small business venture is reduced.

The Revolving Loan Fund (RLF) is not intended to be used to replace or complete with the existing lending institutions. Rather, the program takes on some of the financial responsibility of the lender in order to minimize the perceived risks to the private sector lenders. The RLF will provide funds at a favorable rate and term to the business to fill the gap between the total project cost and what the business can provide through equity and private financing sources. In filling the financing gap, the RLF shall be in an amount sufficient to induce the lending institution to complete the financing package. The effect of the blended interest rates is incentive for the business to undertake a project.

These provisions are guidelines for use by the EDC in considering RLF applications. The approval of an application indicates that in the opinion of the EDC the application meets the intent of the RLF program guidelines.

II. TARGETING CRITERIA

A. Eligible applicants should have the following characteristics:

1) Must employ 100 persons or less
2) Should be a private, for-profit business in manufacturing, retail, or service industry
3) Special consideration will be given to a company that is a supplier of an existing Kentwood industry

B. Eligible loans will include the following:

1) Fixed asset loans for the acquisition and/or improvement of land, buildings, machinery and equipment, including new construction and the renovation of existing facilities.

C. Eligible projects should include the following:
   1) The expansion of an existing business or industry
   2) The retention of an existing business or industry
   3) Funding of a project that involves the introduction of new technology into an area
   4) A Kentwood business which is a direct supplier to an existing Kentwood business
   5) The expansion or location of a Kentwood business that employs a new technology and has potential for growth

D. Ineligible projects include the following:
   1) A project that involves primarily the refinancing of existing debt, non-capital equipment, and working capital.
   2) Financing of speculative projects, buildings or activities

E Exceptions to the eligibility guidelines
   1) Exceptions will be made to these guidelines if the business can demonstrate the need for the RLF in order to move forward with a project. These guidelines may be amended to reflect changing needs or trends within the industry.

III. STANDARDS FOR RLF LOANS

A. Job Creation
   1) A project shall produce at least one new or retained permanent full-time equivalent job for each $35,000 of public money invested, including RLF and other public program monies.
   2) Job creation attributable to the loan financing shall take place within two years of project completion.

B. Leverage
   1) For every dollar of public funding received through the RLF or other public programs such as CDBG, EDA, SBA, etc., at least one dollar of private sector funds must be leveraged, Private sector dollars may include, but are not limited to, funds from private finances, funds from other lenders, or equity. At least ten (10) percent of the project cost must come from equity.

C. Other Special Considerations
Special consideration shall be given to a business or industry which meets one or more of the following criteria:
   1) High growth potential—industries identified by the EDC as having potential for rapids growth
   2) High level of tax revenue generated
   3) High level of employment
   4) Prevention of loss of employment
   5) Company has generated a high potential for growth based on past history

6) Company is a supplier of an existing Kentwood business

IV. FINANCING POLICIES AND TECHNIQUES

A. The estimated size of the loans (in terms of EDC funds) is $5,000-$100,000, with $100,000 the maximum available to a single borrower in the initial round. (See Section V regarding the initial round of funding). No more than fifty (50) percent of the EDC funds available for the RLF may be used in the initial round. As more monies are acquired for the RLF and funds are recaptured from other loans, no more than fifty (50) percent of the RLF portfolio will be made available to a single borrower. This policy may be changed and the maximum loan amount changed if the monies become available to the RLF, or if the success of an individual project is determined by the EDC to significantly benefit the area and to clearly meet and exceed the program standards.
B. Typically, a minimum of 10% of the project costs must be furnished by the principals of the applicant company as equity infusion. No more than forty (40) percent of the total project cost can be furnished through the RLF program.
C. The standard interest rate to be charged by the RLF program will be fixed at seventy-five (75) percent of the Prime Rate, or another rate, dependent on the financing needs of the business and the benefits resulting from the project.
D. A business or industry may be offered a term of up to twenty (20) years for real estate and up to ten (10) years fro machinery and equipment, with the maximum term not to exceed the life of the asset.
E. An equal monthly repayment schedule for the term of the loan will be normally required by the RLF program. Alternative loan repayment schedules may be developed where circumstances warrant.
F. The participating private sector lender will monitor all loans by the City of Kentwood. Payments will be normally due as agreed upon by the lending institution offering private financing.
G. To meet the financial and credit needs of a business or industry, the special financing techniques offered to the borrower may include, but are not limited to the following:
   1) Subordination of loans to primary and secondary lenders
   2) Balloon payments at the end of a shortened term, thereby requiring a re-evaluation of the borrowers financing needs at the end of the stated term.
   3) Interest payment only for a specified term.

   These techniques may be applied where the business' credit analysis determines that special loan/payment terms are necessary for the project to proceed as determined by the EDC.

H. RLF Program Security
   1) All RLF loans must be secured by a mortgage, security agreement, UCC Agreement as applicable, promissory note or other assignment of rights in the assets of the owner(s) to sufficiently protect the RLF loan.
   2) In the event that the EDC determines that it is necessary or desirable to take action to protect or further the interests of the RLF, it may sell,

collect, liquidate, or otherwise recover on loans extended by the RLF, in accordance with the legal rights of the RLF borrower, other lenders, and the EDC.

I. The loan agreement between the RLF and the borrower will stipulate that the loan be called, and the borrower found in default, if the business or industry move its operation form the geographic boundary of the RLF area during the term of the loan.

J. All applicants for assistance from the RLF program will be required to file a formal application with the EDC. The EDC will require sufficient information to assure that the project is feasible, the RLF financing is necessary and appropriate, and that the project will go forward if assistance is provided.

K. Principal payments and interest will be collected by the participating private lender and returned to the RLF for future loans. A five dollar ($5.00) fee per payment shall be charged to the applicant by the lending institution to cover the cost of this transaction.

L. The borrower will bear the following costs:

   1) Legal counsel, recording fees and any fees necessary for the perfection of the RLF's security interest in the collateral. A processing fee of 2% of the total loan cost not to exceed three hundred dollars ($300.00) will be charged by the EDC and collected at closing to offset the costs to the EDC.
   2) Loan servicing fees to be charged by the lender serving the loan. Initially the servicing fees shall be $5.00 per payment.
   3) Any service fees or costs as required by the primary private lender.

M. The EDC will attempt to identify and direct the applicant to pursue other programs offered by federal, state, and local authorities, including the following:

   1) Industrial Facilities Tax Exemptions
   2) Industrial Revenue Bonding Act (Act 62)
   3) EDC Bonding
   4) Job Training Programs
   5) Small Business Administration 504 Program
   6) Michigan Strategic Fund Program

V. TIME SCHEDULING FOR LOAN CLOSING

The first loans of the RLF are scheduled to occur within 12 of the time that monies become available. Once fifty (50) percent of the initial EDC program funds are loaned, no more loans will be approved will be approved until sufficient monies are repaid or otherwise acquired to allow for additional loans to be made. Proceeds from the loans will be placed in an interest-bearing account until such time that additional loans can be made.

PART TWO – ADMINISTRATIVE ELEMENTS OF THE PLAN

I. ROLE OF THE ECONOMIC DEVELOPMENT CORPORATION

A. The EDC responsibilities with respect to the Revolving Loan Fund shall be as follows:

1.) Review, selection, and approval or disapproval of loan applications
2.) Establish policy and procedure for the program
3.) Review policy and procedure
4.) Make final decisions on the EDC portion of the loan

B. The EDC will meet as necessary to review the loan applications. In determining the loan and project eligibility, the EDC's review will include, but not be limited to:

1.) The number of jobs created or retained per dollar amount of the RLF and other public funds.
2.) The ability to repay the loan through credit analysis of past performance
3.) Collateral or security available
4.) Feasibility of increased profitability in light of regional trends
5.) Benefits created by the development
6.) The extent to which the project is ready to go forward
7.) Degree to which the failure of the project to go forward would be of substantial detriment to the public interest.
8.) Leveraging of other public and private funds according to the specifications stated in Section I.

II. STAFF CAPACITY

A. Outside consultants may be required to assist the EDC with specialized skills and advisory services. The following consultants may assist the EDC in the application process:

1.) Legal Counsel – The legal counsel will prepare appropriate legal documents pertaining to the loan, such as security, loan closing documents, and review or preparation of legal documents related to loan delinquencies and defaults, as needed . The legal counsel will serve the RLF program on a retainer basis.

2.) Financial and Credit Analysis – Staff will work with the participating lender in determining the credit-worthiness of the business concern.

3. Loan Servicing – The business or industry's financial institution will service the RLF loan and its own loan. A letter of agreement regarding this activity will be executed between the EDC and the financial institution for each loan, and the fee for servicing the loan will be included in the monthly payment to bank. The agreement will outline the rights to collateral and the rights to participate in negotiation in the event of a default.

B. Staff will be responsible for following:
1.) Advertising or intake of application
2.) Preliminary analysis of loans based on program criteria and potential economic benefits to the project area
3.) Financial/Credit Analysis—with participating financial institutions.
4.) Collection of materials for loan package
5.) Meeting preparation with EDC
6.) Consultation with the specialists noted above
7.) Monitoring of project with respect to job creation

III. LOAN SELECTION AND APPROVAL PROCESS

A. Advertising of the RLF
1.) The RLF will be advertised to the public in the following ways:
a. News articles in the local news media
b. Advertisements in local newspapers
c. Through the retention and expansion program
d. Through the participating lenders

B. Review and Approval of Loans
The application process will normally proceed according to the following steps:

1.) Initial meeting with Kentwood Staff or participating lender and business concern.
2.) Determination of general eligibility of project
a. Application filed
b. Eligible activity
c. Eligible project cost
d. Job creation adequate
e. Target business or activity

3.) Application filed through EDC and participating bank
4.) Credit Analysis
a. credit review by both the participating lender and the EDC
5.) Decision on project finding
6.) Closing documents drawn up; review of loan by EDC attorney
7.) Final deal packaged
8.) Loan is closed

C. Review
The business will be reviewed by the EDC for determination of credit worthiness, the ability to repay loans and to cover debt service for the private and public partnership monies. The ability to cover debt service will be determined by a thorough analysis of the company's current financial status as well as projected income and expenses. A credit analysis will be reviewed by the EDC. The financial institution will also evaluate the loan using its own criteria, giving the bank the final credit decision.

IV. LOAN SERVICING AND MONITORING

A. General Procedures

1. Once a loan commitment has been approved by all parties, staff will take action to ensure all necessary closing documentation has been prepared and the necessary review discussion with the applicant and legal counsel are accomplished.

2. When a loan closing is completed and funds are disbursed, staff will establish a loan servicing file to contain:
    a. all closing documents
    b. loan servicing checklist
    c. all correspondence relating to the loan

B. Loan Monitoring

1). The monitoring of the loan will be undertaken by the financial institution and by the Finance Director. The Finance Director shall report to staff any noted delinquency in loans, such that proper action can be taken by the EDC.

C. Guidelines for Collection