



Revolving Loan Fund Program Manual

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August2008



Program Introduction

The City of Fostoria operates a Revolving Loan Fund (RLF) to provide eligible economic development projects with low interest loans for the purpose of stimulating job creation, business growth and enhancement of the tax base.

Applications for the Fostoria Revolving Loan Fund Program are submitted to the Fostoria Economic Development Corporation and reviewed by the RLF Administrative Board.

This manual has been developed to provide a summary of policies, procedures, administrative processes, criteria and compliance standards for the RLF applicants to use when for applying for assistance and to maintain compliance if funding assistance is approved.

Targeted Businesses

The following types of firms are eligible for RLF program financing:

- ♦ Manufacturing
- ♦ Industrial
- ♦ Business-to-business services
- ♦ Advanced technology firms
- ♦ Other firms meeting additional criteria

Other firms may be considered if:

- ♦ Job quality, as indicated by full-time positions paying well above minimum wage and providing some fringe benefits;
- ♦ Higher multipliers in the form of secondary spin-off jobs;
- ♦ Community economic base diversification; and
- ♦ Counter-cyclical insulation provided by firms with markets located outside the economic region.

Ineligible activities include investor/developer projects, debt refinancing, taverns, owned-operator truckers, professional services, personal care and nursing homes, day care centers, restaurants, recreation and fitness facilities, vehicle dealers, adult entertainment facilities, game rooms and gaming establishments.

Targeted Geographical Areas

The primary geographic area to be served includes all properties within the corporate limits of the city of Fostoria. In special cases, loans can be made for properties within the four contiguous townships of: Jackson, Loudon, Hancock, and Perry.

Small business enterprises with industrial, manufacturing, or technology based projects located in these areas will be given preferential consideration.

Eligibility

The Fostoria Revolving Loan Fund (RLF) is a local source of fixed asset financing available to small and medium size businesses. This includes funding for land, buildings, machinery, equipment, rehabilitation, improvements, construction and related costs.

The Fostoria RLF Administrative Board reviews all completed loan applications, analyzes the request, approves / disapproves the loan, and oversees the general operation of the entire fund.

To determine eligibility, certain criteria will be considered:

- ♦ The firm's need for assistance; whether activities can proceed without funds and if they cannot, whether the terms of the proposed financing are appropriate considering the business's financial condition and the community's objectives.
- ♦ The community's need for the activity; and
- ♦ Whether the level of assistance to the business is proportionate to the benefit the public will receive.

Fundability

The project must be designed to create jobs that benefit the public and the applicant will be required to enter into a legally binding agreement with the City of Fostoria.

For projects that are designed to retain jobs, documentation **must** be provided to demonstrate that the jobs would actually be lost without assistance. Jobs are considered retained only when it can be clearly and objectively demonstrated that without assistance, the jobs would be lost.

Applicants must adhere to a three year employment schedule. 90 days after project completion, the RLF recipient will be asked to verify employment. Actual employment may vary depending on the use of the loan, start-up and other circumstances unique to the industry.

Failure to comply with the employment provisions of the loan agreement will be a default of the loan agreement.

Loan Fees

Application Fee: \$ 250-500

All borrowers are responsible for filing fees or other cost incurred (e.g., credit reports) by the FEDC with processing the application or closing the loan.

Yearly Service Fee: \$250

Commitment Fee: \$250

Pre-Application Process

- ♦ Applicant will meet with RLF Administrator to discuss the needs of the project and whether the project appears to meet program guidelines.
- ♦ Applicant will provide the RLF Administrator with background information, financial information, supporting documents for an initial evaluation.
- ♦ The RLF Administrator will go over processing requirements with the applicant and provide an initial evaluation to proceed or not.

Application Processing

- ♦ Applicants will complete the loan application and submit to the RLF Administrator for an initial review to ensure the request is complete, that it meets RLF program guidelines and complies with regulations.
- ♦ Applications meeting the above criteria will be presented to the RLF Administrative Board. Those not meeting program guidelines may be denied, accepted with waivers granted or held pending clarification of questions and receipt of further information.
- ♦ The RLF Administrative Board analyzes the credit, collateral, and repayment aspects of the loan request then recommends approval, denial, or modification of the request. Loan applicants are advised in writing of the decision.

Evaluation Criteria

Financial Evaluation:

- ♦ **Financial Status of the Business:** An evaluation of prior years' and present financial performance. Financial statements and tax returns for the past three (3) years are to be provided.
- ♦ **Financial Status of the Owners:** An evaluation of the prior three (3) years personal tax returns, personal financial statements, and credit history. The same evaluation of a guarantor, if applicable, will also be conducted.
- ♦ **Projected Cash Flow:** Profit and Loss Statements and Cash Flow Statements for the next three (3) years are required.
- ♦ **Collateral / Security Analysis:** An analysis of the assets securing the loan showing evidence of their useful life should be submitted. Appraisals, when necessary are to be provided.

Business Evaluation:

- ♦ **Business Plan:** The business plan should demonstrate that a market exists for the product or service. Management and business experience of the owners and managers should also be provided.

Public Purpose Evaluation:

- ♦ The total number of **jobs created / retained**;
- ♦ The **quality of jobs** in terms of salary, skill level, stability, etc.;
- ♦ The **ratio of RLF dollars to private investment**;
- ♦ The **amount of alternative funding** from sources other than the RLF dollars invested in the project;
- ♦ The **projected tax revenues** to Fostoria and the county(s) in which the project is location;
- ♦ The overall **benefit to the community** or neighborhood.

Loan Terms and Conditions

- ♦ **Loan Amount:** Typically, ten percent of total project costs must be furnished by the principal(s) of the applicant company as equity infusion, as required by the RLF Administrative Board. Furthermore, 50 percent private financing is generally expected at a minimum. Fixed asset financing up to 25% of total eligible project costs, not to exceed \$250,000.
- ♦ **Loan Term:** RLF financing will be offered for a term determined to be appropriate based upon the life of the asset financed and the demonstrated ability to repay the loan. Loans used for **real estate** will have a repayment period of up to ten (10) years. Loans used for **machinery and equipment** will have a maximum term of seven (7) years. In most cases, repayment will be on a monthly schedule.
- ♦ **Interest Rate:** Interest will be dependent upon the financing needs demonstrated by the applicant business. As a general rule, the interest rate is set at 1.25% below Prime. The interest rate will be fixed on the date of approval.
- ♦ **Collateral:** The loan will require security agreements for at least 100 percent of the amount of the loan. A Security Agreement and UCC statements on the equipment in question may secure capital equipment. Real estate or construction costs may be secured by a mortgage. All such agreements shall be subject to review and approval by the City Law Director, as well as approval by the RLF Administrative Board. With RLF Administrative Board approval, the lien position of the RLF loan may be subordinated to that of another lender (most commonly a participating bank). Personal guarantees may be required as requested by the RLF Administrative Board.
- ♦ **Private Sector Financing:** Projects are required to have a combination of cash equity, private sector financing, and/or other public financing, excluding public financing capitalized with RLF funds, of at least 75 percent of the total eligible project costs. However, a private regulated financial institution must commit to at least 30 percent of the total eligible project costs. Private regulated financial institutions include commercial banks, savings and loan associations, and other government regulated lenders. A minimum of 10 percent non-borrowed cash equity is required except in circumstances deemed appropriate by the RLF.
- ♦ **Employment Requirements:** One job is to be created for every \$30,000 loaned or one job retained for each \$15,000 loaned. Loan recipients have three (3) years from the date of the loan approval to fulfill job requirements. Failure to meet the job requirements may result in a retroactive increase in the loan's interest rate.

The amount loaned is directly tied dollar-for-dollar to the average annual wage paid, e.g., an average annual wage of \$30,000 would mean the RLF could loan \$30,000 per job created (maximum dollar amount per job is \$50,000). The RLF Administrator will require annual proof that the borrower is meeting the commitment. The less funding required per job created, the better.

Funding Requirements

Please read carefully before completing the RLF application.

State and federal guidelines require that certain stipulations must be met for revolving loan fund projects to go forward. Please read the following list of requirements to ensure that your application is complete and that your project can meet these requirements.

1. The RLF Application must be filled out completely.

Furthermore, you must include additional information, such as:

- ♦ **For every fixed cost in the project:** a third party cost certification (contractor's estimate, vendor's equipment price quote).
- ♦ **In the case of working capital loans:** a plan for use of working capital.
- ♦ **For all other sources of funds besides the RLF (banks, equity, etc.):** evidence that the funding is committed and maximized, by letter (for loans) or bank statement (for equity). Letters from sources of other loans must quote interest rate, term, conditions, and security position.
- ♦ **For existing businesses:** financial statements for the past three years.
- ♦ **Projections for the next three years:** including debt service on the proposed RLF loan and any other loans. Projections must include profit and loss statements and balance sheets (assets and liabilities).

The projections should show that the requested RLF interest rate and term are needed in order to keep debt service low enough to realize a reasonable return on investment (measured as profit after taxes divided by tangible net worth and by total assets). If a higher interest rate can be absorbed and you are able to realize a reasonable return, we will negotiate for the higher rate (or in some cases, a shorter term).

2. Additional information required for loan approved.

This includes:

- ♦ **Resumes of principal(s)**
- ♦ **Information on product and market**
- ♦ **Business plan.**

For start-up businesses, **this information is required** for the RLF Administrative Board to make an informed decision. The Ohio Small Business Development Center at Terra Community College offers assistance in developing business plans and financial statements; free seminars that will answer questions about starting, buying or expanding a small business. For additional information, contact Bill Auxter at 800-826-2431 or email bauxter@terra.edu.

3. Your project must meet the following minimum criteria:

- ♦ **One full time equivalent job created or, in special cases, retained for every \$15,000 -\$50,000 loaned.** The amount loaned is directly tied dollar for dollar to the average annual wage paid. For example, an average annual wage of

\$30,000 would mean the RLF could loan \$30,000 per job created. The maximum dollar amount per job is \$50,000. The RLF administrator will require proof annually that the borrower is meeting the commitment (the less funding required per job created, the better);

- ♦ **One dollar minimum of other funding for every RLF dollar, with at least ten percent (10%) of fixed costs in cash equity** recommended;
- ♦ The **majority of jobs created must be held by persons who**, at time of employment, **live in the Fostoria area**;
- ♦ **Project must be within City of Fostoria**, or the four contiguous townships;
- ♦ **Eligible fixed costs** include real estate, construction of buildings and on-site improvements, and heavy equipment (usually with a life of over five years). In special cases, working capital loans can be made;
- ♦ **Speculative projects not tied to specific businesses and job creations are ineligible.**

4. You must clearly document your need for RLF funding:

Provide evidence that the project cannot go forward without RLF funds, at the requested interest rate and term. This documentation takes one of two forms:

- ♦ **A letter from your bank or lender** stating that they will fund a portion of the project, but will not finance more than a specified maximum amount, and citing an interest rate and terms for that loan. Their loan should be contingent on your receiving funds from the RLF to “fill the gap”. You must also demonstrate that your business cannot reasonably contribute any more equity than the amount you cite in your application. The remaining needed funds thus represent the “gap” which must be filled with RLF funds.

-or-

- ♦ **Your three-year projections** may indicate that if your project were financed in total by a private lender at a quoted interest rate and term, you cannot realize a reasonable return on your investment, and the lower rate offered by the RLF for a portion of the project will make the difference for your “bottom line”. Documentation of this type usually requires two sets of projections: one with the RLF loan repayments at a lower rate for part of the project and showing a reasonable return, and on showing conventional interest rates for the whole financing package and indicating a negative or unacceptably small return.

5. All projects subject to environmental review procedures:

Requires a review and comment period ranging from three weeks to a month depending on the impact of your project. No funds, either from the lender, equity, or RLF, can be obligated or expended before the comment period is over. Your project must thus be timed so that it does not begin before your application is reviewed and approved, you have signed the legal documents, and the environmental comment period has been completed.

6. If your project is funded:

You will be required to sign a loan agreement that will include security and collateral agreements. These documents will include:

- ♦ The **loan document**, including job creation and project goals;
- ♦ A **promissory cognovit note**;
- ♦ **Security agreements**, cash as UCC equipment liens and/or a subordinated mortgage;
- ♦ The following may also be required: Title search / title opinion, corporate resolution empowering an officer to sign agreements, mortgages, etc.
- ♦ A personal guarantee, for which personal financial statements will be required.

7. If your project is funded:

You must provide documentation of compliance and performance. The following materials will be required of you:

- ♦ **Evidence of total project expenditures** as proposed (invoices, cancelled check)
- ♦ **Evidence of hiring** (income certifications for all employees hired)
- ♦ In many cases, **quarterly financial statements** will be required during the loan period.

8. Applicants may be subject to personal credit reviews.

9. Projects involving acquisition of real estate require compliance with the national Uniform Acquisition and Relocation Act. Do not enter any options or purchase agreements prior to consulting with the RLF administrator to make sure all necessary steps can be taken.

10. Successful applicants will be billed for direct loan processing costs (mortgage and security filings, credit reviews, appraisals, and other minimal direct costs if any) and closing costs.

If you have any questions, contact:

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