



# SMALL BUSINESS ECONOMIC LOAN PROGRAM

DEPARTMENT OF PLANNING & COMMUNITY DEVELOPMENT

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**ABOUT THE CITY OF DOVER  
SMALL BUSINESS REVOLVING LOAN FUND PROGRAM**

The Community Development Office, the City's agent for the Dover Economic Loan Program (DELP), has developed an innovative program designed to further promote growth by assisting small businesses.

The DOVER ECONOMIC LOAN PROGRAM is designed to promote the growth and expansion of businesses committed to Dover through gap financing. The program will target, in order of priority:

1. existing small businesses currently located in Dover which are interested in expanding and improving their enterprises;
2. existing small businesses currently located outside Dover which are interested in relocating; and,
3. new small businesses which are interested in establishing themselves here in Dover.

**PROGRAM GOALS & OBJECTIVES**

The objectives of the DOVER ECONOMIC LOAN PROGRAM, which is financed through the City's Community Development Block Grant Program, essentially mirrors the national objectives of the federal Block Grant Program as promulgated by the Secretary of Housing & Urban Development (HUD). In order to satisfy the national objectives, the activity undertaken must benefit persons of low and moderate income and/or aid in the prevention or elimination of slums and blight. In accordance with HUD regulations specific criteria must be met in order to satisfy these objectives. These specifics will be provided to each applicant.

The immediate goal of this program is to stabilize and expand the City's economic foundation and tax base by promoting growth of small enterprises. Although narrower in scope than a comprehensive business loan pool, the DOVER ECONOMIC LOAN PROGRAM is expected to provide significant benefits to the City in addition to generating economic growth.

## **DELP Eligibility and Underwriting Standards**

The DOVER ECONOMIC LOAN PROGRAM is designed to promote the growth and expansion of businesses committed to Dover through gap financing. The program will target, in the following order of priority:

1. Existing small businesses currently located in Dover which are interested in expanding and improving their enterprises
2. Existing small businesses currently located outside Dover which are interested in relocating
3. New small businesses which are interested in establishing themselves here in Dover.

## **Evaluation and Underwriting Standards**

The following Considerations, Evaluation Criteria and Underwriting Standards will be used, by the Program Administrator and the Loan Review Committee, to evaluate loans, make approvals and set terms for loans:

1. **National Objectives Criteria** – Funds borrowed under this program must be expended on a project which will satisfy one or more of the national objectives of the Community Development Block Grant Program. These national objectives, as outlined in CFR 24 Part 570.208, are the following:
  - A. Activities benefiting low and moderate income persons
  - B. Activities designed to meet community development needs having a particular urgency
2. **CDBG Eligibility** – Funds borrowed must be used for an eligible activity as outlined in:

CFR 24 Part 570.203 (a)	Special Economic Development Activities (non-profits)
CFR 24 Part 570.203 (b)	Special Economic Development Activities (for-profits)
CFR 24 Part 570.201 (o)(1)(i)	Expansion of Microenterprises.
3. **Eligible Businesses** – Eligible Businesses should have a net worth not in excess of \$6 million and an average net profit less than \$2 million during the previous two years.
4. **CDBG Funds Not to Replace Private Sources** – Applicants will be required to document that the requested financing from the SBRLF was not obtainable, in full or in part, from other sources.
5. **Commitment of Other Funding** – Applicants will be required to document that other sources of funding are committed.
6. **Reasonableness of Costs** – Applicants will be required to document the reasonableness of project costs by providing estimates, appraisals, and quotations as appropriate.
7. **Return on Equity Investment** – The expected return on the equity investment can not be unreasonably high for the project.
8. **Job/Cost Ratio** – The job/cost ratio will be one job created for each \$25,000 of RLF investment at a minimum.

9. **Equity Participation** – The minimum amount of equity required is 10% of the total project funding required. Documentation of this equity contribution will be required.
10. **Cash Flow Requirement** – Applicants will be required to produce financial forecasts which indicate that they will have adequate cash flows to support all debt created by the project
11. **Security** – The borrower must secure loans made by the RLF through security interests in business assets and real estate (as applicable). Since RLF funds are intended to be gap financing and may be subordinate to the primary lender, personal guarantees for the repayment of funds may be required.
12. **Applicant Costs** – Direct costs of loan processing (closing costs, appraisal fees, credit checks, etc.) are the responsibility of the borrower. Each applicant will also be charged an application fee of 1% of the loan amount, not to exceed \$500.
13. **Business Location** – Loan recipient businesses must reside, or have entered into an acceptable lease arrangement to reside, in the City of Dover prior to receipt of funds.
14. **Outstanding Tax Liability** –The applicant (or any entity under the control of the applicant) must not have any outstanding tax liability to the City, State, or Federal Government other than current bills and approved payment schedules. Applicants may not be “debarred” from receiving Federal benefits.
15. **Applicant Presentation** – The applicant may be required to make a presentation to, and answer questions from, the Loan Review Committee to demonstrate the applicants knowledge of the business, understanding of financial issues, and why the project has a reasonable chance of success. In addition to the preceding underwriting criteria, the committee will use the information from this presentation to make a decision to award or deny the loan.

16. **Loan Criteria:**

All Loans are made subject to the availability of funding

- **LOAN AMOUNT:** It is desired that DELP’s share not exceed 25% of the total project cost up to \$50,000. Exceptions to this limitation may be made if the project is committed to provide substantial economic benefit to the City of Dover, through job creation/retention, infrastructure improvements, tax revenue increases, or other municipal benefits.
- **TERM:** Loan terms may be as long as twenty-five (25) years. Specific loan terms will be tailored to the estimated economic life of the financed assets. No prepayment penalties will apply. A balloon term may be used if the profit expectation allows. Construction or bridge financing will be allowed with firm commitments for takeout financing, e.g., a letter of credit.
- **INTEREST RATES:** DELP loans will provide a fixed rate at the time the loan is committed. The rate shall be determined by the Loan Review Committee to meet the financing requirements of the loan being considered.

Payment Terms-Principal & Interest payments shall be made monthly commencing on the first of the month following closing unless the loan is closed late in the month, in which case payment would begin on the first of the following month.

**ALLOWABLE PROJECT COSTS:** DELP loan funds may be used to fund acquisition of land and buildings, construction, plant modernization, machinery, and equipment. Leasehold improvements will be an allowable cost provided the remaining term of the lease is equal to or exceeds loan maturity. Soft costs such as legal, architectural, and other professional fees may be included. Working capital may be included when secured by collateral.

**NOTE: The applicant may request that the Committee modify or waive these requirements. The request must be made in writing explaining why the exception is required. The Committee will review the request and determine whether the circumstances dictate a modification of the requirements.**

**BENEFIT:** The following test must be met:

1. At least 51% of the jobs created or retained must be filled by persons of low and moderate income.

The application package will include a fact sheet, loan application, checklist, and other items necessary to the formal loan application.

Upon receipt of the completed application, the staff will analyze it for presentation to the Loan Review Committee for final action.

**PROGRAM ADMINISTRATION:** The program will be administered by the City of Dover, through the office of Planning and Community Development. The CD staff will perform such functions as applicant interviews and screening, analysis of financial statements, credit reports, preparation of documentation for the Loan Review Committee, negotiations with private lending institutions, loan closings and administrative services. Staff members from other City departments such as Finance, Economic Development, and Legal shall be utilized as needed.

**LOAN PROCESSING AND APPROVAL:** Loans will be presented to the Loan Review Committee after a written certification by the staff that the proposal meets all eligibility tests (and after loan documentation is complete) the Loan Review Committee may request additional information prior to its decision. The decision of the Loan Review Committee will be final. The LRC may reject the loan for financial considerations, or any other reason deemed to be in the best interests of the City of Dover. Authority to make such decisions is delegated by the City Council. If the loan request is approved, the applicant will be sent appropriate documentation including a loan authorization form, which must be signed and returned to DELP with 10 days. Upon receipt by DELP of the signed authorization form, a copy will be forwarded to the designated lending institution, and a closing date established.

**LOAN REVIEW COMMITTEE:** All processable loan applications will be submitted to the Loan Review Committee for action. The Loan Review Committee shall meet upon the call of the chairman. Committee membership shall be comprised of three persons. Composition of the

Committee shall consist of the City Manager or designee, and two City Council appointees, one of whom shall be a commercial banker.

Upon acceptance of the terms and conditions of the loan the Economic Development Coordinator will forward a copy of the terms and conditions to legal counsel who will prepare the necessary closing documents. All loans shall be obligated, secured, recorded, and otherwise contracted by sound legal documents. The borrower's business activities and the use of the loan proceeds must be in accord with all pertinent laws and regulations.

Funds will be disbursed after all appropriate closing documents are properly executed. The DELP will require invoices, requisitions, or other satisfactory evidence of approved uses of loan proceeds prior to and as a basis for disbursement of funds. DELP funds are to be disbursed on a pro rata basis with other project funding.

#### Loan Servicing

The Economic Development Coordinator will be primarily responsible for monitoring repayment of all loans. Upon completion of a loan closing, the Economic Development Coordinator will notify the client of his/her repayment schedule. The Economic Development Coordinator will also notify the borrowers of reporting requirements. In general, a Borrower will provide the following reports each quarter:

1. An Income and Expense Statement for the previous period;
2. A Current balance sheet;

Additional reports may be required. The Community Development Office will also conduct annual site visits.

The Community Development Coordinator will review the status of loan repayments due from each borrower. The Economic Development Coordinator will issue a letter requesting immediate payment for any accounts that are 30 or more days overdue. If payment is not received within the following 15 days, the Community Development Coordinator will notify and visit the borrower to seek immediate resolution of the problem. If the borrower cannot make the account current within the following 15 days, the C. D. Coordinator shall declare the account delinquent. To remedy delinquent accounts, the City may either:

1. Declare the account in default, and refer it to legal counsel to pursue legal remedies; or
2. Negotiate a Forbearance Agreement for which the Community Development Coordinator will provide analysis and recommendations.

The Office of Community Development will be responsible for monitoring employment increases, which are tied to the provision of loan assistance. This function will be completed by means of a Job Creation Monitoring Form, submitted to the City as outlined in the Job Creation Agreement.

Defaults will be handled by legal counsel who will be responsible for recovering the balance due to the RLF from the defaulting client. Methods for handling default might include: foreclosure, petitioning of estate and involvement with the bankruptcy process.

## **Other Requirements**

### *Civil rights*

No RLF loan applicant will be denied a loan on the basis of race, age, national origin, religion, sex, or physical handicap. The C. D. Office will monitor applicants by means of quarterly labor status reports and site interviews with employees. Applicants with detectable deficiencies in employment practices will be allowed thirty days to correct such deficiencies. Continued failure to correct deficiencies may lead to suspension or termination of assistance. All RLF loan applications are required to state both current and projected employment estimates in their loan package.

### *Environment*

The C. D. Office will also function as the environmental review agency for each loan application.

### *Relocation*

Access to the RLF will be limited to businesses currently located in the City of Dover; businesses seeking a loan to finance relocation to the City of Dover; and new businesses seeking in establishing themselves in Dover. Should a business client move from the City of Dover prior to maturation of its loan, the business shall immediately be required to reimburse the principal balance of the loan.