

Athens-Clarke County Revolving Loan Fund

Underwriting and Programmatic Guidelines

MISSION

It is the mission of the Athens-Clarke County Revolving Loan Fund to create job opportunities for low-to moderate-income individuals and to assist entrepreneurs in creating viable, successful businesses.

Athens-Clarke County recognizes the positive impact that small businesses have on the community. They are collectively one of the largest employers in the Athens Area. They provide the work discipline and job skills training necessary for residents first entering the labor force. They also contribute significantly to the local tax base. Without a strong and vibrant small business sector in Athens-Clarke County, the continued economic vitality of the area would be difficult to maintain.

The smallest businesses, however, have very limited access to the credit necessary for growth and success. Often undercapitalized from their inception, many small businesses have difficulty qualifying for conventional bank financing. Small business loans are costly to originate and service. It takes virtually the same amount of time for a bank loan officer to make a \$50,000 loan as a \$500,000 loan, yet the revenue generated from the \$500,000 loan is much greater. Also, servicing the \$50,000 borrower often takes more time than servicing the larger borrower because the small borrower needs more time, attention to detail, follow-up and counseling. Finally, small businesses have higher loan default rates than larger businesses. All of these factors combine to hinder a conventional lender's ability and desire to make adequate and affordable credit available to small businesses.

In an effort to help maintain a vibrant environment for small businesses in Athens-Clarke County, the Athens-Clarke County Revolving Loan Fund works with local financial institutions to provide low-interest, flexible gap financing to qualified small businesses, thereby making credit more affordable for small businesses and reducing the risks and costs associated with small business credit.

HISTORY

In 1990, the Georgia Department of Community Affairs (DCA) awarded a Community Development Block Grant to Clarke County. The grant was part of DCA's Employment Incentive Program (EIP) designed to assist businesses in creating jobs for low-to moderate-income individuals. Clarke County used the funds to make a direct loan to a local company, which in turn repaid the loan to the newly created Unified Government of Athens-Clarke County. The repayment of the original loan was combined with an allocation of \$130,000 of locally awarded CDBG funds in 2000 to capitalize the Athens-Clarke Growth Fund, now known as the Athens-Clarke County Revolving Loan Fund (Fund).

GOALS AND OBJECTIVES

The primary goal of the Fund is to encourage businesses to create sustainable jobs for the employment of low- to moderate-income individuals residing within Athens-Clarke County, Georgia. In exchange for favorable interest rates and flexible capital, the assisted businesses commit to creating jobs for low-to moderate-income individuals.

Athens-Clarke County Revolving Loan Fund

Underwriting and Programmatic Guidelines

LOAN CRITERIA

In order to be considered for a loan from the Fund, applicants and their respective projects must meet the following criteria:

1. Business and project must be located in Athens-Clarke County.
2. Business must meet the definition of a "small business" as defined by the Small Business Administration.
3. A complete business plan is required for a company to be considered.
4. For every forty thousand dollars borrowed, the business must commit to creating or maintaining one new full-time job for a low-to moderate-income individual as defined by the U.S. Department of Housing and Urban Development.
5. Borrower must demonstrate through appropriate documentation that the Fund is being used to fill necessary funding gaps that exist after the borrower has received funding commitments from private sources.
6. Loan funds may be used for machinery, equipment, leasehold improvements, or real estate and associated improvements. Loan funds may not be used for refinancing debt.
7. Business must demonstrate the ability to generate adequate cash flow to service all debt.
8. Requests for loans above \$50,000 must be reviewed and approved by the Athens-Clarke County Mayor and Commission.
9. Requests for loans of \$50,000 and below will reviewed and approved by the Revolving Loan Fund Committee.

JOB CREATION CRITERIA

There are three job creation criteria that must be fulfilled by borrowers in order to qualify for the Fund:

- Each project must be associated with the creation of new jobs or retention of existing jobs.
- One full-time job must be created for every \$40,000 of funds awarded. The business may include the creation of a job for the owner in this calculation.
- At least fifty-one (51%) of those hired for these new positions must be low- to moderate-income individuals prior to their date of hire. Refer to the HUD Section 8 income guidelines for applicable income amounts. A required self-certification must be completed as part of the pre-hire process for all employees hired related to the project.

LOAN STRUCTURE

The borrower must contribute at least ten percent (10%) of the needed cash or equity for the proposed project. A traditional lender must provide at least 50% of the project cost and the Fund may provide the remaining 40% of the needed funds. All projects are subject to a thorough underwriting process. All loans are subject to availability of funds.

Athens-Clarke County Revolving Loan Fund

Underwriting and Programmatic Guidelines

INTEREST RATES and REDUCTIONS

The Revolving Loan Fund Committee will lend funds at a competitive interest rate.

The rate of interest may be reduced by one-half of one percent should the business exceed the minimum number of jobs required by the program and maintain this level of employment for 12 months. The business has one year to create the required number of permanent positions. If job creation requirement is not met, loan terms may be revised.

The fixed rate of interest may be reduced by one half of one percent should the business locate in a geographic area targeted for revitalization by the Unified Government of Athens-Clarke County, currently including Census Tracts 301, 302, 6, & 9 known as the East Athens and Hancock Corridor communities, respectively.

REPAYMENT TERMS

The terms applied to a loan vary, but generally match the useful life of the project being financed and shall be on a self-amortizing repayment schedule. Balloon notes with amortization schedules exceeding five years will not be permitted.

Generally, fixed assets, such as land and buildings may be financed for a term not to exceed five years. Machinery and equipment, as well as rehabilitation, acquisition and leasehold improvements may be financed for a term not to exceed five years. More typically, these items will be financed for a period of 3-5 years.

Repayment terms can vary to meet the needs of the borrower and will be set by the Revolving Loan Fund Committee. Variances are rare and dependent upon the recommendation of Revolving Loan Fund Committee based upon special considerations.

INTAKE, APPLICATION and APPROVAL PROCESS

Applications for the Revolving Loan Fund are accepted by staff of the Housing and Community Development Department (HCD) of the Unified Government of Athens-Clarke County, Georgia. Applications are accepted on a funds-available basis.

Applying to the Fund is similar to applying to any financial institution for a business loan. HCD Staff will work with borrowers to complete the required application and assemble the necessary supporting materials. An application, complete business plan, and other appropriate supporting documentation are required for the application to be considered complete. Borrower agrees to permit access to credit history. The borrower pays all incidental fees related to the loan.

Once the application is complete and all supporting information is on file, HCD staff, with guidance from the Revolving Loan Fund Committee, will complete underwriting and due diligence analysis.

The Revolving Loan Fund Committee will meet to discuss and take action on the loan request. The Revolving Loan Fund Committee may meet with the applicant. After addressing any

Athens-Clarke County Revolving Loan Fund

Underwriting and Programmatic Guidelines

outstanding questions or concerns, the Revolving Loan Fund Committee will vote and either reject the loan request or approve the loan request. The Revolving Loan Fund Committee may also vote to amend the applicant's request and/or require more information before rendering a final decision.

Where the loan request is \$50,000 or less, the vote of the Revolving Loan Fund Committee will be determinative.

For loan requests over \$50,000, the Revolving Loan Fund Committee will evaluate the merit of the application and provide a recommendation either in support of or against the loan award to the Athens-Clarke County Mayor and Commission.

If the proposed project is approved by the Revolving Loan Fund Committee, HCD staff will prepare documents for closing the loan and arrange for all related details. The loan documents will be forwarded to the ACCUG Attorney's Office.

UNDERWRITING

Loan underwriting is provided in cooperation with participating commercial lenders and by HCD Staff. Underwriting criteria resemble those used by lending institutions in business loan evaluation; however, because the Fund has a community development mission, underwriting criteria will include non-tangible considerations including economic impact and community benefit.

COLLATERAL AND PERSONAL GUARANTEES

Each loan will be secured by collateral adequate to safeguard the Fund's investment. Because the Fund provides gap financing in partnership with a commercial lender, the Fund may take a subordinate lien position on the assets being financed. The Fund may file a general security agreement on all assets of the company.

Liens on outside assets will be required where appropriate and available. Personal guarantees will be required in all loans. The personal guarantees may be collateralized with personal assets where appropriate.

While the Fund seeks to secure every loan with adequate collateral, lack of hard collateral, by itself, will not be the sole reason to decline a loan. In situations where operations are healthy and cash flow is relatively strong, collateral may be of secondary importance.

Generally, the following loan-to-value ratios will be applied and are based upon market value of the collateral. These values may be adjusted as warranted:

Land	80%	May vary according to market
Buildings	80%	May vary according to market
Machinery & Equipment	50%	May vary according to market
Other Property	TBD	May vary according to market

Athens-Clarke County Revolving Loan Fund

Underwriting and Programmatic Guidelines

RECOMMENDED DEBT COVERAGE RATIO (DCR)

DCR Definition: Compares borrower's cash flow, either actual or projected, to the ability of the borrower to service the debt using a monthly repayment schedule. This ratio shall determine the maximum loan amount a borrower can afford to borrow based upon ability to repay.

Generally, borrowers should use no more than 90% of their available cash flow to service debt. The preferred DCR shall be 75% of available cash flow. These percentages would be discounted for any partner lender loans concurrent with our own.

Example: If a borrower had available cash flow of \$1,000 per month, then no more than \$750 should be used to service new debt, the Fund loan, and the partner lender loan. In certain circumstances, the higher ratio would be allowed, depending upon job creation and locational factors.

The underwriting process would also continue to consider other guarantees and pledges of personal collateral, owner equity injected into the project, and the borrower's personal integrity and credit history.

LOAN FEES AND OTHER COSTS

All of the costs associated with making a loan with the Fund, including but not limited to credit report fee, title insurance, UCC searches, surveys, the Fund's legal fees, recording costs, documentary stamps, and other costs are to be paid by the borrower. The borrower must also reimburse the Fund for all costs incurred in the event that a loan is not consummated as a result of the fault of the borrower.

Fees shall be assessed only when necessary to provide for the costs of underwriting or closing. Whenever possible, underwriting will be accomplished in partnership with the participating commercial lender. Generally, the borrower shall bear the direct costs without any additional levy or increase on the part of the Fund.

LOAN SERVICING

The ACC Finance Department provides loan servicing in a cooperative arrangement with the Housing and Community Development Department. ACC Finance provides amortization tables, payment schedules, and other fiduciary functions without additional fees or costs to the borrower.

COMPLIANCE AND MONITORING

HCD staff will ensure compliance with program requirements and will provide ongoing review of necessary documentation and oversight of the program.

Athens-Clarke County Revolving Loan Fund

Underwriting and Programmatic Guidelines

Because the Revolving Loan Fund is capitalized with federal CDBG funds, businesses are required to spend funds loaned to them in accordance with federal regulations. Specifically, all projects must undergo some level of Environmental Review as determined by U.S. HUD regulations. Additionally, projects involving contract construction labor (i.e. leasehold improvements) that exceed \$2,000 must adhere to federal Davis-Bacon requirements.

REVOLVING LOAN FUND COMMITTEE

The Revolving Loan Fund provides broad oversight of the Fund to ensure that the Fund appropriately and effectively invests in projects that will yield benefits for the Athens-Clarke County community. Specifically, it is the responsibility of the Revolving Loan Fund Committee to review loan requests and, for requests of \$50,000 or less, either approve or deny the requests. For loan requests exceeding \$50,000, the Revolving Loan Fund Committee will make a written recommendation to the Athens-Clarke County Mayor and Commission. The Revolving Loan Fund Committee will also provide broad guidance regarding the policies and implementation of the Revolving Loan Fund.

The Revolving Loan Fund Committee shall consist of not less than five individuals and not more than seven, each appointed by the Mayor. These individuals will be representative of the community at-large and will include at least one representative from a local financial institution, two small business owners, one county commissioner, and a representative from one of the Community-Based Development Organizations serving the County's distressed neighborhoods. As needed, non-voting members of the Committee will provide insight and support as circumstances dictate.

Meetings of the Committee will be held as often as necessary to provide customer service to clients seeking loan funds, but will generally not be held more than once a month.

Voting by the Committee on submitted loan applications shall take place only when a quorum of the committee has been present to discuss the loan application. A quorum is as follows:

LRC Members:	Quorum:
5	3
6	4
7	4

If a Revolving Loan Fund Committee members is applying for a loan, s/he must recuse herself/himself from voting on the application.

The Mayor appoints and removes Revolving Loan Fund Committee members. Committee members serve renewable three-year terms. There are no term limitations.

FUND ADMINISTRATION

Athens-Clarke County's Housing and Community Development Department (HCD) administers the Revolving Loan Fund. HCD is responsible for the Fund's day-to-day oversight and implementation. This oversight and administration includes, but is not limited to:

- serving as the primary contact for prospective fund clients;

Athens-Clarke County Revolving Loan Fund

Underwriting and Programmatic Guidelines

- working with applicants to complete necessary documentation;
- ensuring the Revolving Loan Fund operates in compliance with applicable federal regulations;
- making recommendations regarding fund policies and implementing guidelines to the Revolving Loan Fund Committee to ensure effective management;
- marketing the Revolving Loan Fund;
- exercising due diligence;
- assisting with underwriting on prospective investments; and
- ensuring clients make timely payments.

EQUAL OPPORTUNITY LENDER

The Athens-Clarke Revolving Loan Fund is an equal opportunity lender. It is the policy of the Revolving Loan Fund not to discriminate on the basis of national origin, race, religion, disability, age, gender or sexual preference. All qualified borrowers are encouraged to apply.