



CITY OF CHISAGO CITY REVOLVING LOAN FUND PROGRAM POLICIES AND PROCEDURES

I. BACKGROUND.

A. The City of Chisago City, Minnesota (the “City”) and the Chisago City Economic Development Authority (the “Authority”) have determined that it is in the best interest of the health, welfare and development of the City to establish a Revolving Loan Fund (the “RLF”) initially established by a grant of funds from the Community Development Block Grant Fund as administered by the Minnesota Department of Employment and Economic Development (“DEED”). The purpose of the RLF is to encourage economic development within the City, which fit within the guidelines set forth in these policies and procedures (the “Policies”). The RLF will be administered by the Authority and, in conjunction with any participating institutions, loans from the RLF may be made to such businesses to help meet their financing needs. The following Policies are intended to provide guidelines for the Authority’s administration of and the grant of loans under the RLF.

II. PROGRAM ELEMENTS.

A. Goals and Objectives. The City’s RLF will be used:

1. To help leverage private investment and provide debt financing to projects that otherwise may not occur.
2. The encouragement of energy efficiency, which enhances the business operation and reduces energy consumption.
3. To promote the renovation of commercial and industrial buildings.

B. Identification of the Areas Financing Problems

Oftentimes businesses have difficulty securing capital to undertake development ventures. Such difficulty may be due to high financing costs, loan terms, debt ratios, available security and the like. Thus the RLF is intended to assist in an overall project cost or finance improvements which otherwise qualifies and is approved under these Policies.

C. Targeting Criteria

Requests for loans from the RLF will be reviewed on a first come first served basis and the availability of funds.

D. Standards for the RLF Portfolio

RLF proceeds may be used for construction or rehab of manufacturing/warehouse facilities, site improvements including energy efficiency, purchase of machinery and equipment and work force development.

E. Financing Policies

1. A maximum loan size of Ten Thousand and no/100ths (\$10,000.00) Dollars.
2. Loan terms may be approved based on the useful life of the asset in question not to exceed ten (10) years.
3. Interest rate is to be 2%.
4. The Authority may provide deferments on principal repayments and subordination of loans to meet the credit needs of borrowers.
5. The minimum equity requirement for participation on a RLF loan is equal to ten percent (10%) of project costs. It is the intention of the Authority to secure each loan with a first or second mortgage on real estate or a UCC filing on equipment, inventory and/or receivables, assignments of rents and personal guarantees as deemed appropriate by the Authority and consistent with these Policies.
6. RLF loans will only be restructured if the restructuring improves the borrower's repayment ability.
7. The Authority may charge a one percent (1%) loan administrative fee to borrowers participating in the RLF program. The use of these funds will be to pay the costs associated with the preparation and structuring of applications and related costs such as accounting to conduct an appropriate review of such applications. Borrowers are also responsible for associated legal fees relating to closing the RLF loan.
8. The Authority may require commitment letters evidencing the limitation of private capital to their project.

III. ADMINISTRATIVE ELEMENTS OF THE PLAN.

A. Loan Administration

The RLF Loan Administration will be conducted by the Authority Staff acting upon the direction of the Authority. The Authority Staff will recommend approval or denial of particular loan applications and related requests to the Authority or to a loan committee appointed by the Authority. Applications and requests will then be considered by the Authority, which will approve or deny the application or request. The duties relating to Loan Administration by the Authority include:

1. Prepare initial loan applications, loan agreements and loan documents to streamline and lend consistency to the application and loan process.
2. Review and approve or deny all applications for loans under the terms of this program.
3. From time to time, amend the RLF program Policies as needed
4. Report to the City Council.

B. Authority Staff

The Authority will provide staffing for the RLF and the duties of the staff include the following:

1. Management Assistance. Staff will assist applicants in locating additional business, financial and management training as may be needed by the business.
2. Financial Management. Staff will provide all financial management of the RLF including, loan disbursements, loan servicing, audits and record keeping.

C. Loan Selection and Approval Process

The selection and approval processes will be as follows:

1. Application.
 - a. An application form will be required of all potential borrowers in order to determine the proposed structure and eligibility of the project for which a loan is requested. Authority staff will develop this form.

- b. All applications will be received and reviewed by Authority staff for eligibility. Responses will be provided in a timely manner.
- c. When completed applications are received, Authority staff will conduct a thorough review including some or all of the following:
 - eligibility with RLF Policies
 - economic benefits of the proposed project
 - repayment ability
 - collateral and lien position
 - credit risk of applicant
 - need for special requirements, i.e. insurance, personal guarantee
- d. The Authority or loan review committee will review the full application, and prepare a recommendation on the application to the Authority.
- e. The Authority will review the staff recommendations and will make the final decision on the loan application.
- f. Authority staff will inform the applicant in writing of the application decision.

D. Loan Servicing

1. Loan closings will be handled by Authority staff and or the City Attorney in conjunction with the attorney, if any, of the borrower. RLF loans may be secured via an assessment against the property for which the loan was secured, if allowed by Minnesota state Statutes.
2. Loan servicing will be handled by Authority staff in conjunction with the City's Accounting Department. A separate accounting system within the City's general ledger will be established. Banking services will be provided through the City depository with separate accounts established for the RLF funds. Authority staff will monitor and keep records of all accounts in terms of repayments and special provisions. Monthly reports will be generated for all individual loans including principal, interest, fee payments, etc.
3. Delinquency will be handled in a firm yet flexible way with provisions for modifying or restructuring consistent with program objectives and responsible money management. Any modifications

of loan terms and conditions must be requested in writing by the applicant and approved by the Authority or the loan review committee.

4. Defaults will be handled on a case-by-case basis. Specific action will depend on the nature and circumstances, amount and availability of collateral and costs versus benefit of liquidating assets or other collateral. Any action taken will be handled by Authority staff and at the direction of the Authority or the loan review committee.

E. Other Requirements.

1. Civil Rights.
The Authority will comply with all requirements of EEOC.
2. Access for the Handicapped. If the RLF finances a construction project to which the public will have access, provisions for access to the handicapped must be included.
3. Findings. For each loan application, the Authority staff must make a finding of compliance or no adverse impact. If there is a finding of non-compliance, a plan for mitigation acceptable to the regulatory agency must be filed with the Authority. Authority staff will monitor compliance with the mitigation plan.