

CITY OF MADISON, INDIANA

PROGRAM GUIDELINES AND PROCEDURES

MICRO-LOAN PROGRAM

July 1, 2012

APPLICANT:

All eligible individuals or corporations applying for loans from the City of Madison's Micro-Loan funds must submit a completed application available from the office of the Mayor or his designated representative. A \$ 50.00 non-refundable application fee is required to be paid by the applicant if it is determined the application will be forwarded to the Micro-Loan Revolving Loan Committee for consideration. Loan closing costs will also apply should the loan receive final approval. Closing cost may include lien records, security records, title searches as well as any other reasonable and applicable loan generation expenses. These costs are to be paid by the borrower and will be subtracted from the loan proceeds at the loan closing.

The borrowing applicant will then be interviewed by the Mayor or his designee to determine whether the borrower will require professional business advisory and consulting services. Any cost associated with this service is to be borne by the borrower. From information gathered from the borrower's application and interview, the Mayor or his designee/program administrator will, at a minimum, learn the location of the proposed business, the type of business, the purpose and use of the loan request, the amount and period of time of the loan, intended security to be used as collateral against the loan, expected jobs created or retained, and that the applicant is not disqualified because of a relationship to those prohibited from being qualified to participate in the Micro-Loan program.

If an applicant feels that he/she was unfairly denied by the Mayor or his designee the opportunity to have his/her application forwarded to the Micro-Loan Revolving Loan Committee, he/she may appeal directly to the Committee to state his/her grievance. The appeal must be in writing to the

Chairperson of the RFL Committee. At the next scheduled public meeting of the committee, the appeal request shall be placed on the Committee's agenda and the appeal to be considered for a loan be heard and discussed by the committee. Following the discussion, the Committee shall vote to grant or deny by majority vote of the members present.

LOAN CRITERIA:

- Business shall be located (or is locating) within the city corporate limits or the two (2) mile area of the city corporate limits that lay within the boundaries of Jefferson County, Indiana.
- * Applicant shall present evidence that indicates the RLF loan is necessary to make the proposed project feasible.
- Applicant shall certify that at least 51% of the outstanding ownership of business involved is comprised of those individuals that are either citizens of the United States or reside in the United States after being legally admitted for permanent residence.
- Maximum loan from the Micro-Loan is \$ 25,000.
- No business may obtain multiple loans that exceed \$ 25,000
- * Minimum loan is \$ 5,000
- Loan terms are two (2) to five (5) for Micro-Loan
- Applicant shall be at least 18 years of age and a legal resident of the United States of America.
- All corporations requesting loans shall be in good standing with the Secretary of State of Indiana and be properly filed with a current status.

- If the applicant has no or limited business experience, he/she shall complete an acceptable business course from an approved institution or organization that provides such courses (e.g. SBDC, Ivy Tech etc.).

* No active full-time employee of the City of Madison, Mayor, Clerk-Treasurer or member of the Common Council, Board of Public Works and Safety or the Revolving Loan Review Committee or their direct relatives are eligible to receive funds from the city loan programs. A relative is defined as the spouse, parent, father-in-law, mother-in-law, child, son-in-law, daughter-in-law, grandparent, grandchild, brother, sister, brother-in-law, sister-in-law, uncle, aunt, nephew, or niece and whose relationship is the result of birth, marriage, or adoption. If any of the above listed ineligible individuals is a business associate of the applicant in another business enterprise, then the applicant would also be prohibited from receiving a loan. A business associate is defined as a person or that person's relative as listed above that has a financial interest with the applicant in another business.

- Additional forms or more strict criteria may be required if funds to be used to lend to borrower are from grants or other funds from Federal or State agencies that require such forms or criteria. Applicant will be informed of these requirements, if applicable, at the time of application.

ELIGIBLE INDUSTRIES/BUSINESSES

- Manufacturing
- Retail Trade
- Wholesale Trade
- Transportation
- Service Industries (To include Information Technology, Professional)
- Trades (To include Electrical, Plumbing, Roofing, Lawn Care)

REQUIRED DOCUMENTS:

- Acceptable business plan
- Previous two year financial statements (for existing businesses)
- Two year proforma financial statements (for new businesses)
- Copies of previous two year federal income tax returns (personal returns and other tax returns if applicable i.e. corporation or partnership)
- If loan is to a corporation, a corporate resolution authorizing the loan will be required.
- Authorization for the city to obtain current credit information from one or more commercial and/or personal credit reporting agencies.
- Shall show evidence and provide affidavit that borrower has at least 15% of the amount of the loan as equity in the business. This affidavit shall be accompanied with a copy of bank statement or letter of intent.

The administrator of the fund shall have a checklist of all required forms and documents.

APPROVED USES OF FUNDS

- Land and building acquisition
- * Acquisition and development of land, easements and right-of-ways
- Equipment
- Inventory

- Working Capital
- Technical assistance for private business enterprise.

PROHIBITED USES OF FUNDS

- To pay past due taxes
- To pay off any previous debts except for non-secured trade payables. Refinancing construction financing is an exception to this rule.
- To pay dividends or repay individual's equity.
- To pay credit card debt (Personal or business)
- RLF funds will not be used to produce agriculture products through growing, cultivation, and harvesting either directly or through horizontally integrated livestock operations except for commercial nurseries, timber operations, or limited agricultural production related to technical assistance projects.
- RLF funds will not be used to finance comprehensive area-wide type planning. This does not preclude the use of grant funds for planning for a give project.
- RLF funds will not be used to fund a part of a project which is dependent on other funding unless there is a firm commitment of the other funding to ensure completion of the project.
- Loans will not be made unless there is a reasonable prospect that the applicant meets the definition of "small and emerging private business enterprises" defined as "any private business that will employ 50 or fewer new employees and has less than \$1 million in projected gross revenues." If the grantor changes its definition of small and emerging business defined by the Rural Business Enterprise Grant regulations, the

grantee reserves the right to utilize the amended definition without further approval from the grantor.

TYPES OF SECURITY FOR LOANS

- General Security Interests

The city requires each borrower grant to the lender a blanket security interest in the borrower's assets, including, but not limited to, accounts receivable, inventory and equipment.

- Mortgages

The city will require a mortgage in cases where real estate is being acquired with loan funds or the real estate where the borrower's business is located is owned by the shareholders or partners of borrower and leased to borrower and in any other instances in which the city deems necessary.

- Personal Guaranties

The city shall require the personal guaranty of repayment by the borrower.

JOB CREATION OR RETENTION:

Each loan shall provide at least one (1) job created or retained for each \$10,000 or portion thereof borrowed.

RLF REVIEW COMMITTEE AND APPROVAL PROCESS:

The Micro-Loan Revolving Loan Review Committee is comprised of:

- Five (5) members, three (3) to be appointed by the Mayor of the City of Madison and two (2) to be appointed by the Common Council of the City of Madison.

* The initial committee appointments by the Mayor shall be for one (1) year and for two (2) year terms thereafter. The initial committee appointments by the Common Council will be for two (2) years and two (2) year appointments thereafter. The expiration dates of the appointments of the two appointing authorities shall occur in different years.

- One (1) of the Mayor's appointment shall be a lender from a local lending institution and one (1) of the Common Council's appointment shall have two (2) or more years experience in commercial loan activity.
- The remaining three (3) members shall have an interest in the economic climate of the RLF territory.
- All voting members of the RLF Review Committee shall be a resident of Jefferson County, Indiana.
- The term of each RLF committee person shall be two (2) years and he/she shall serve until his/her successor is appointed.
- Each RLF member serves at the pleasure of the appointing authority and may be removed at any time.
- The City's Economic Development Coordinator, the Mayor or his designee and the Clerk-Treasurer or his designee shall serve as ex-officio members of the RLF Review Committee but shall have no voting privileges.

- Three voting members of the RFL committee shall constitute a quorum necessary for the recommendation for approving, rejecting or to table an application for funding from the RLF. A simple majority (51%) of members voting shall be necessary for approving, rejecting or to table an application.
- Any tied vote by the committee will be considered as a tabled application.

The committee will meet monthly with a majority present in an open public meeting to review loan applications as provided to the committee from the Mayor or his designee. At the first meeting of the committee, the committee will elect from its membership a Chairman, Vice-Chairman and Secretary and will at the first meeting after January 1st of the ensuing years, elect officers for these positions for that year. If the Chairman is absent from the meeting, then the Vice-Chairman will chair the meeting. If both the Chairman and Vice-Chairman are absent, then the Secretary will chair the meeting. If no loan applications are pending, the committee via its chairman may cancel the required monthly meeting. If a quorum is not present, the meeting shall not be held. The committee shall operate in accordance with the Public Meetings (Open Door Law) requirements of the State of Indiana as per IC 5-14-1.5. The notice of the public meeting as well as the agenda for the meeting will list the names and addresses of all applicants being considered for a loan. The location of the business, business name (if known) and the type of enterprise will also be listed.

Prior to the regular public meeting, the Committee will meet in executive session to review the personal financial data and other applicable information that was provided by the applicant. The applicant or his/her designee shall be available to appear before the Committee if desired by the Committee. All public notice requirements of the executive session shall be done in accordance with IC 5-14-1.5. No votes may be taken during this session.

Following the executive session, the Committee will meet in a public meeting. During the public meeting, the Chairman shall announce the name of the applicant, the type of business, business location, the loan amount

requested and the requested term of the loan. The applicant or his designee must be present at the meeting. If the applicant is using a designee, this must be done in writing and signed by the applicant. The members may question the applicant concerning the loan request and receive public comments regarding the loan and/or the applicant. Applications will be considered in the sequence of tabled applications (oldest first), then in the order of when a completed application was received by the Mayor or his designee. After the committee has reviewed all loan applications, they will vote on each application in the order that was presented. The committee will then vote to recommend the approval, disapproval or to table the loan request. If the recommendation is to approve the loan, the committee will also recommend the amount of the loan and the term of the loan.

If the committee tables the application, at the next meeting of the committee, the application shall be taken off the table to be reconsidered. The applicant or his designee must be present for the committee to take any action on the application. The committee may vote to place the application on the table one additional time, but at the next meeting, with the applicant or his designee present, shall take the application off the table and vote to recommend approval or disapproval at that meeting.

If the request for loan applications exceeds the amount available in the Micro-Loan Fund balance and the remaining funds to be drawn from an active grant balance, the applications to be reviewed and funded will be based on the following:

Applications for RLF funds will be accepted on a continual basis. Applicants who choose to apply in times when inadequate funds exist for extending a loan will be informed of the lack of funds. Applications will be reviewed and funded (if eligible) based on the following criteria:

- a) Applications with the greatest anticipated economic impact for the community shall receive greatest priority. Criteria to be considered in determining economic impact include number of jobs created or saved, wage scale of employees, benefits paid to employees.
- b) Applications of equal economic impact will be funded in date order of application.
- c) In accordance with Federal law and U.S. Department of Agriculture policy, the Loan Committee will not, nor will the Mayor or his

designee discriminate on the basis of race, color, national origin, sex, religion, age, disability or marital or family status.

- d) The Loan Committee will be responsible for determining priorities of application to be funded. Eligibility of applicants will typically be determined within thirty (30) days of receipt of a complete application. An application will be considered complete when all information necessary for the Loan Committee to make a decision has been received.

FINAL APPROVAL PROCESS:

Following the recommendation from the RLF Committee, the application shall be forwarded to the Mayor for his consideration. If the Mayor desires to have the application proceed, he will, by his signature, recommend approval and forward the application for the next meeting of the City of Madison Board of Works and Safety for final approval or disapproval.

The recommendation for approval will be listed as an agenda item in order that the members of the Board of Works and Safety clearly are aware they are voting for a loan approval or denial. The express and written consent of the Board is required for a loan approval.

No loan shall be made without sufficient funds available in the applicable fund account.

FINANCIAL INSTITUTION LOAN PARTICIPATION:

To help in the administration of the approved loans, the city will encourage full service financial institutions (Banks) that provide commercial loans and have offices located within the city or the two mile area of the city corporate limits that lay within the boundaries of Jefferson County, Indiana, to participate in these loan programs. The city will request a letter of interest and intent to participate in these programs from all qualifying institutions.

If more than one bank agrees to participate, the loans will be made on a rotating basis. The bank may refuse to accept any loan if offered by the city. The bank may not transfer, assign or change terms of the loan without the written consent of the city through its Board of Public Works and Safety.

Banks are expected to provide the following:

- Loans at 1% over their normal prime rate
- Subtract their regular closing costs from the proceeds of the loan
- To inform the city if the loan becomes past due at 30 days (plus regular grace period)
- If the loan becomes over 60 days delinquent, the bank will clear the escrow account against the open debt and refund the difference to the city's Clerk-Treasurer's office and transfer the remaining debt obligation of the borrower back to the city.
- The bank will use their regular reminder to the borrower of a 30 day past due payment by either letter or internal collection efforts. No outside collection service is to be used by the bank if there is a cost to the city for this service.
- Monthly the City will obtain a statement of account on all loans outstanding and escrow balances from participating banks.

The City will provide the following:

- The placement of funds to the bank in an escrow account dedicated to the individual loan in an amount equal to the loan made as a guarantee for the loan. The escrow account will earn 2% interest compounded at least on a monthly basis.

If, in the event, all banks decline to administer a loan approved by the City of Madison Board of Public Works and Safety, the city, with the consent of the Board of Works and Safety, may execute the loan directly with the borrower at an interest rate that would have been provided by the participating bank, i.e. prime rate + 1 %. Prime rate is the interest rate charged by the bank with the largest amount of deposit dollars that has headquarters within the City of Madison corporation limits and the two (2) mile radius of the City's corporate limits that lay within the boundaries of Jefferson County, Indiana. If no bank is headquartered within the above boundaries, then the Wall Street Journal Prime Rate + 1.0% will be the loan interest rate. All necessary closing costs associated with making the direct loan will be deducted from the loan amount at the closing of the loan.

LOAN DEFAULT:

Should a borrower fail to make timely payments that exceed 60 days of being due, the Mayor or his designee will attempt to negotiate with the borrower to rework the loan. If the city is able to reach an acceptable agreement with the borrower, the change in the borrowing agreement must have the express and written approval of the City of Madison Board of Public Works and Safety.

Any loan that is delinquent and an acceptable agreement between the city and the borrower cannot be reached, then the Board of Public Works and Safety will decide whether the loan should be referred to a collection agency, filing a lawsuit or determine if the loan is uncollectable and removed from the city's accounts.

If the business ceases operations or relocates outside of the previously defined geographical area, the Board of Works and Safety may require immediate pay off of the loan.

CONFIDENTIALITY OF PERSONAL INFORMATION:

As personal financial and perhaps, other personal information will be included in the loan application, it is imperative that careful control of this personal and confidential information is done. Indiana Code 5-14-3, Access to Public Records, clearly states those records that are excepted from disclosure requirements. Those types of records would include, but not limited to social security numbers, confidential financial information, tax returns, trade secret records, etc.

In order to provide the applicant a high degree of confidence that their personal data is protected, the following procedures will be the standard for securing this information and data from unauthorized individuals:

* After the loan administrator has received all required forms and documents from the applicant, he/she will only make the necessary

number of copies required to provide to the RLF Committee members for their review. The original application with documents will remain in the custody of the administrator.

- The original and duplicate copies will be secured with the Clerk/Treasurer until needed by the Committee. The administrator will have access to these documents, but only with the knowledge of the Clerk/Treasurer and these shall be returned timely to ensure these materials are kept in a secure location.
- The Committee members will receive these documents at the Executive Session for their review, but must return all materials following the end of the Public Meeting that follows the Executive Session. The program administrator and the Clerk/Treasurer or his/her designee will be responsible for gathering the copies from the Committee members and will store these in the Clerk/Treasurer's office.
- Following the completion of the loan process, all unnecessary copies will be properly destroyed.
- If the loan request has been approved, the original documents will be stored with the Clerk/Treasurer and one copy of the documents will be sent to the Financial Institution that will be processing the loan.
- If the loan request has been denied, the original application with documents will be secured with the Clerk/Treasurer and all copies properly destroyed.
- The Committee members will be advised that the personal financial and other protected information must be kept confidential and cannot be discussed with anyone other than the Committee members and the applicant or his designee.
- All documents will be stored and maintained in accordance with document retention requirements.

REPORTING:

Following the approval of these guidelines, in March, June, September and December of every year, the Mayor or his designee shall provide the Common Council with the financial condition of the loan funds as well as any other information requested by the Common Council.

The United States Department of Agriculture (USDA) or other Federal granting agency may require a Performance Progress Report (PPR). This reporting is based on the size of the grant (currently grants exceeding \$ 100,000) and the period of reporting will be directed by the awarding Federal agency. These reports will be submitted as required.

VERIFICATION:

At least annually, the Mayor or his designee will verify that the jobs created or retained as required as a criteria of the loan approval has been satisfied and the collateral used as security for the loan is intact and at the borrower's place of business if applicable. Any deviation to the above shall be reported to the City's Board of Public Works and Safety at its next meeting following the discovery of said discrepancy.