



## **Village of Paw Paw Policy and Plan For Revolving Loan Fund**

The Finance Administrator shall deposit such monies available in separate fund, hereby created, entitled “Revolving Loan Fund” hereinafter “RLF”.

### **I. *Objectives***

One of the major problems in local business development and a significant contributing factor to local economic distress is the problem of credit capital availability. Even when available, the cost and terms of credit may prevent firms from starting up, expanding, or continuing operations, resulting in the loss of potential jobs, tax revenues, and private investment. The primary goal of the grant or loan capital availability through the RLF will be private sector job creation or retention. Thus the RLF will finance industrial or commercial activities in the Village of Paw Paw where opportunities for private sector jobs for low and moderate income persons are greatest. RLF loan activities will emphasize direct job creation/retention by attracting capital for the start-up, expansion, or retention of business. Limited grant funds for specific purpose described in Article XI will have the same objective.

RLF funds can also be used by the Village to purchase property for eligible projects, providing the Village has a commitment from the applicant to provide permanent jobs, in Paw Paw and to have a minimum 10% equity in the total project. Terms of property transfer will be specified in the RLF Closing Documents.

RLF funds can also be used by the Village to construct a building for projects creating permanent jobs in Paw Paw. Transfer of the building will be specified in the RLF Loan Closing Documents.

### **II. *Revolving Loan Committee***

The Committee shall be responsible for: reviewing applications with respect to conformity with said policy/plan, recommending to the Village Council acceptance or rejection of loan applications. The seven member committee will need to possess skills in the areas of business, Finance, law, marketing, credit

analysis, loan packaging, loan processing and servicing, and need to be cognizant of the Village of Paw Paw economic needs and priorities. The committee will, thereof, be composed of the following:

- 1 member - Paw Paw Village President
- 1 member - Paw Paw Village Council
- 1 member - Village Planning Commission
- 1 member - Village Attorney
- 1 member - Village Manager
- 1 member - Financial Advisor/Analyst designated by Village Council
- 1 member - The Greater Paw Paw Chamber of Commerce

### **III. *Policies***

The Village of Paw Paw Revolving Loan Fund will retain the payback from loans including principle and interest payments, as well as any interest payments as the result of depositing these funds with financial institutions. Up to ninety (90) percent of the funds in the RLF, at any particular time, may be utilized for direct loans or for loan guarantees. The minimum loan will be \$ 10,000. Fund balances will be deposited in an interest-bearing account in a local financial institution. Any loans created or retained may not exceed \$30,000 per job.

The Village Attorney will prepare all legal documents and filings in order to protect the Village's interest in all collateral and other matters.

### **IV *Application Process***

Applications for loans must be submitted to the Finance Administrator by completion of a Loan Application Package on the form attached hereto, which will include a complete business plan, balance sheets, income statements, resumes of key officers, marketing information, verification of collateral, and statement of intention to comply with civil rights, equal opportunity, Davis-Bacon wage standards in construction, environmental, historic protection requirements, project cost/financing summary, estimated employment creation and retention, project schedule and statements that Uniform Relocation Act (URA) will be performed.

### **V. *Application review process***

Upon receipt of a complete application, a standing committee of the Revolving Loan Committee, comprised of the Village President, Village Manager, Assistant Village Manager, will review and investigate the application, detailing any further information which may be useful to the RLF Loan Committee in acting upon the application.

The said RLF Committee, upon being satisfied that the application is as complete as reasonably possible, will schedule a public hearing to be conducted by the RLF Committee, and provide at least 10 days prior notice through publication in the Courier-leader, a newspaper of general circulation in the Village of Paw Paw.

The RLF Committee will meet to review and act upon the application within 30 days of the public hearing. The RLF Committee will act to recommend that the Village Council approve or disapprove of the application, consistent with the objective of RLF and this RLF policy.

1. The job to cost ratio reflecting the number of job created or retained relative to the RLF investment.
2. The proportion of jobs that will be targeted to low and moderate income persons (applicant must demonstrate willingness
3. Criteria for the types of jobs to be created or retained relative to the long-term economic potential of the Village of Paw Paw.
4. The ratio of private sector dollars to be leveraged by the RLF funds, including both the amount of equity investments and other loans involved in the project. The RLF loan should not in any event be greater than 33.3% of the total project.
5. In the event security for the RLF loan is subordinated, the applicant must normally provide evidence of at least 10% equity investment in the project.
6. The types of activities to be financed by the loan, such as reuse of abandoned facilities, modernization of plant and equipment, or start-up capital for new firms.
7. It is required that a state or federally chartered commercial lending institution is also lending money in the project.

If the RLF Committee generally approves of the application, the Village shall also undertake to obtain the requisite environment review and civil rights review.

Within 30 days of receipt of the recommendation from the RLF Committee, the Village Council at its public meeting will approve or disapprove of the loan, and all proposed loan documents, consistent with RLF policy.

The Village Council shall hold all required public hearings required by the Michigan Jobs Commission. After said hearings, the results of the hearing will be forwarded to the Michigan Jobs Commission along with the required Program Income Project Review (PIPR) form. The Michigan Jobs Commission must give final approval to the loan, prior to any disbursement of funds.

The RLF Committee and Village Council reserves the right to reject any and all applications for loan or grant funds, based upon their perception of public interest, the number and types of jobs created and predicted viability of the business venture.

## **VI. *Use of Loan Funds***

Loans made from the R.F. may be for the acquisition of fixed assets, or in exceptional circumstances, working capital. Fixed assets include land and building acquisition, new construction or renovation, machinery and equipment, land and leasehold improvements. Fixed asset loans are preferred to working capital loans. Working capital loans may however, be considered providing there is adequate collateral, the term is short as possible, and the loan will have a significant impact in creation or retention of jobs and leveraging of other resources. The specific uses of working capital loans, or working capital elements of combined asset and working capital loans, must be detailed in the application, and approved uses of such funds must be made part of the final documents.

Speculative activities, such as land banking and the construction of speculative buildings are ineligible for RLF loans. Similarly, a loan will not be allowed for the purposes of refinancing or consolidating existing debt. No loan will not be approved which would create a conflict of interest for any current elected officer to the Village of Paw Paw, appointed committee member or employee of the Village of Paw Paw.

No loan will be made which is known to be inconsistent with federal and state guidelines applicable to the R.F. at the time the R.F. is established.

## **VII. *Significant Loan Terms***

The interest rate carried by R.F. loans will vary from loan to loan, and will be established by the Paw Paw Village Council upon recommendation of the RLF Committee.

Recognizing that the RLF loan is designated to fill a "gap" in conventional financing of a project, interest rate will be a set rate or three (3) percentage points below to two (2) percentage points above prime at First of America Kalamazoo.

Amortization of the loan will be tailored to the needs of the project, including deferral of principal or interest payments for up to two years if necessity is shown. However, there must be at least some amortization; that is; repayment should be over the term of the loan rather than a single payment at the end of the term, although balloon payment loans may

be allowed. The term of a loan to an entity operating leased facilities will no longer than the lease. Further, a loan pertaining to real estate should be no longer than 15 years, to machinery and equipment 7 to 10 years (or dependent upon the useful life of the asset), and in the case of a loan for working capital, the term should be no greater than 4 years.

Loans typically include a five (5) to seven (7) year balloon at which time the loan will be reviewed to determine if it can be refinanced by a conventional lender. If this can be done without significant harm to the business involved, the Village will require such action in order to "roll over" RLF monies to be reused for other business development projects.

All legal fees and processing fees will be the responsibility of the applicant.

### **VIII. *Security***

Security in the form of verifiable collateral must be provided for repayment of the loan. The security should be valued at least as great as the sum of the RLF loan and all superior loans. Subordinate security positions will be taken to the extent that they are necessary to meet the needs of a particular project, but only upon a showing of absolute necessity. The borrower must, at the time of closing the loan, provide casualty and hazard insurance on any facilities financed or used as security for a loan, and must also provide a lenders policy of title insurance at the time of closing.

Where companies requesting loans are owned by a relatively small number of persons or where there is less than 2 to 1 coverage by collateral, personal guarantees from principals shall be required.

### **IX. *Amendment to Policy***

Upon the recommendation of the RLF Loan Committee, the RLF policy may be amended by the Village Council with the approval of the Michigan Jobs Commission.

### **X. *Administrative Costs***

Income of the RLF, which includes principal and interest payments on the loans and interest earned on the fund, may be allocated to cover administrative costs. However, the administrative costs may not exceed 20% of income of the RLF. These sums may be in addition to loan origination fees which are payable directly to RLF.

### **XI. *Enforcement***

The Finance Administrator is charged with the obligation of monitoring repayment and the security for outstanding loans. In the event of a delinquency, or the security for repayment is jeopardized, the RLF Committee shall promptly recommend a course of

action to the Village Council. The Village Council will be responsible for ultimately enforcing repayment, modifying the term of loans, or taking legal action in the case of default. All proceeds loans, principal and interest, or from the sale of loans, shall be returned to RLF to be available for reuse pursuant to this policy.

In the event of loan delinquency, the Village of Paw Paw will charge a penalty of one (1) percent per month of the balance over ten days delinquent. If the borrower pays their delinquent balance to make the loan current, they will be excused from additional penalties. However, in the event that the borrower fails to remit the appropriate amount by the date specified, the Village of Paw Paw may declare all the sums secured immediately due and payable, in full. Thereafter, without further notice the Village may commence foreclosure proceedings and invoke the power of sale therein granted pursuant to applicable law, and any other remedies permitted by applicable law.

## ***XII. Grant from the RLF***

The Village of Paw Paw, generally following the same loan procedures, may apply RLF funds to site acquisition or development for job creating commercial or industrial development without provision for repayment, for projects promising significant economic impact. **Funds can be used as local match requirements for another grant or a grant for an economic development project.** The maximum amount available for qualified grants shall not exceed \$200,000. Only one grant shall be available per project, but a grant and loan both can be made on a single project.



## Village of Paw Paw Revolving Loan Application

Applicant: \_\_\_\_\_

Address: \_\_\_\_\_

Dollar Amount Requested: \_\_\_\_\_

Describe the purpose of the loan :( i.e. Purchase Property, Purchase Fixed Assets, etc.)

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List Collateral: \_\_\_\_\_

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Statement to comply with civil rights, Davis-Bacon wage standards in construction and equal opportunity employer:

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Please include the following when submitting the application to the Finance Administrator and or Village Manager or Village Clerk at Village Hall:

1. Business Plan
2. Financial Statements, including balance sheets and income statements.
3. Resumes of key officers
4. Market Information.