

BOULDER REVOLVING LOAN FUND RLF PLAN

INTRODUCTION:

The City of Boulder has received \$100,000 from the Montana Department of Commerce to establish and administer a Revolving Loan Fund (RLF) as part of a legislative appropriation (65th Legislative Session House Bill 387, Chapter 258 Laws 2017) to help mitigate the impact from the legislative mandated closure of the Montana Developmental Center.

PROGRAM OBJECTIVES:

The Boulder Revolving Loan Fund is designed to stimulate economic development activity by assisting the private sector to attract new businesses, create or retain jobs, and provide access-to-capital for Boulder businesses. These funds are intended to be used to incentivize business activity and in situations where a funding gap exists and alternative sources of public and private financing are not adequate. Whenever possible, these funds are intended to complement conventional business financing techniques by leveraging funding from private lending institutions and other federal and state financing programs.

The Boulder RLF is designed to assist new, relocating or expanding businesses by making quality loans with appropriate but attractive long-term, fixed rate terms. Boulder RLF loans will generally provide a subordinate security position to private sector financing, unless primary position collateral is available.

ELIGIBLE APPLICANTS:

Eligible applicants requesting loan assistance will be restricted to applicants within the designated assistance area. The Boulder RLF assistance area is defined as the entire City of Boulder as well as the Jefferson County Fairgrounds.

- A. Eligible applicants are:
- private sector businesses
 - non-profit entities
- B. Eligibility will be determined by analysis of the project submitted by the applicant. The following criteria will be considered when selecting eligible projects:
1. The project represents a new business or expansion of existing business;
 2. The applicant is able to comply with generally accepted loan application criteria, including but not limited to:

- completing a business plan in the format as determined by Headwaters' Loan Officer sufficient to evaluate business operations;
- providing historical and projected financial statements, as deemed necessary;
- providing sound credit reports;
- providing a personal financial statement current within 90 days; and
- pledging appropriate loan security with written personal or business guarantees.

C. No application shall be approved if the project is located outside the City of Boulder or Jefferson County Fairgrounds.

ELIGIBLE ACTIVITIES:

Typical eligible activities include: land acquisition, construction, rehabilitation or installation of commercial and industrial buildings, equipment, inventory or working capital.

TYPE OF FINANCING AVAILABLE:

Direct loans for projects that focus on business retention, expansion, job creation, and the encouragement of new businesses inside the Boulder RLF boundary.

Participation loans with other lenders for projects that focus on business retention, expansion, job creation, and the encouragement of new businesses inside the Boulder RLF boundary.

Headwaters works with companies and/or entrepreneurs to secure financing from various sources. Anticipated financing needs include operating capital, inventory, equipment and real estate. Other types of financing needs, such as land acquisition, construction, rehabilitation or installation of commercial or industrial buildings will be considered on a case-by-case basis. Assistance is provided to prepare business plans to develop routes for financing projects. Headwaters develops financial packages by combining local, state and federal funding sources such as the Economic Development Administration RLF, the Community Development Block Grant program, the MicroBusiness loan program, Small Business Administration, the Montana State Board of Investments with various private sector sources, i.e. financial institutions.

LOAN APPLICATION PROCESS:

Loan applications from the Boulder RLF and/or one of the Headwaters RLF Programs shall be reviewed by Headwaters Loan Officer in accordance with in the following:

- **Loan Application:** The Loan Officer, in conjunction with the Headwaters Loan Review Committee, will develop application guidelines, determine client eligibility and provide business technical assistance to help applicants complete the application. The Loan Officer will have the authority to decline applicants that obviously do not meet program guidelines.

- **Business Plan Requirements:** The Loan Officer, along with Headwaters SBDC, will assist the applicant in the development of their business plan and financial projections in accordance with the Headwaters guidelines, policies and procedures.
- **Loan Review Process:** All applications deemed program eligible by the Loan Officer will be presented to CDBG/PRLF Loan Review Committee (LRC). The LRC will approve (as presented or with conditions) or deny based on evaluation of the Loan Officer's presentation. The presentation will include the application, business plan and any other documentation deemed necessary for a completion evaluation of the request.
- If approved, the Loan Officer will then complete the origination and loan closing.

GENERAL GUIDELINES ON FUNDING PROJECTS:

A. Eligible Types of Loans:

The Boulder RLF provides loans for working capital, inventory, equipment, real estate acquisition and development, and other commercial purposes. The fund is intended to be used as a gap finance and/or incentive finance program that provides financial assistance to businesses and non-profits to spur the economic vitality of Boulder.

B. Minimum and Maximum Loan Amounts:

All loans made to for-profit and non-profit businesses from Boulder RLF are subject to the following:

- **Funding Minimum:** The estimated minimum loan amount will be \$5,000.
- **Funding Maximum:** The estimated maximum loan amount will be \$25,000.
- Loan amounts for a lower or higher amount will be considered if the business request demonstrates significant economic benefit to the City of Boulder, and the Headwaters LRC and City Council approve.

C. Loan Terms:

1. The terms of the loan should be consistent with the projected use of funds and individual project needs. Terms for financing the following projects shall be:
 - Machinery and equipment (based on life expectancy)5 to 10 years
 - Buildings and real estate.....15 to 25 years
 - Working capital.....Up to 7 years

The terms of the loans can be less than the above terms, but not longer than the terms noted above. Terms for loans with a combination of the activities listed above will be at the longer term (For example a loan for machinery and equipment and working capital the term would be 5 to 10 years). If a deferral of repayments or partial-repayment is requested by the applicant and is accepted by the LRC, the term of the loan will include

the deferred period. For example, a loan with a ten-year term with a one-year deferral period has a total term of ten years, not eleven.

D. Interest Rates:

All loans made to for-profit and non-profit businesses from Boulder RLF are subject to the following interest rates:

- Minimum Interest Rate: 1.0% below the current prime rate as published in the Wall Street Journal, not to be less than 2.5%
- Standard Interest Rate: 2.0% above the current prime rate as published in the Wall Street Journal, not to exceed 11.0%
- Maximum Interest Rate: 4.0% above the current prime rate as published in the Wall Street Journal, not to exceed 13.0%

All loan requests will be considered at the standard interest rate unless otherwise requested by the Borrower.

The minimum interest rate should only be used for demonstrably high-impact projects, such as but not limited to those that create multiple high-paying jobs, induce a primary-sector business to relocate to Boulder, or have an outsized impact on the economic well-being of Boulder.

Maximum interest rate projects will be recommended for eligible loans with significant demonstrable risk, such as but not limited to: insufficient collateralization; start-up loans; credit and/or character concerns; etc.

Loan interest rates will be recommended by Headwaters' staff with final determination from the Headwaters' LRC.

E. Loan Security:

All loans must be secured with tangible fixed assets (i.e., land, buildings, and capital equipment), and/or any other reasonable source of available collateral. Boulder RLF funds may be placed in a subordinated security position to other lenders involved in the project.

Applicants will include documentation for the market value of collateral offered for security and description of all security positions held by lenders and any liens that may apply to the collateral (tax liens, mechanics liens, or other liens). Headwaters' staff will negotiate for the most secure position that is reasonably available, regardless of the proposed use of the Boulder RLF funds (for example, fixed assets may be used to secure working capital loans).

Loans will be supported by Personal Guarantees, as well as Assignments to Headwaters of Life and/or Disability Insurance when deemed necessary by the Loan Officer and/or the LRC.

F. Deferral of Repayments for Loans:

At the time of the initial loan request and action, the Loan Review Committee will have the authority to approve special financing needs, such as deferral of principal repayments, to meet a borrower's need for high risk financing and to leverage financing from conventional borrowers. Payments of principal can be postponed for a maximum period of one year. Interest will continue to accrue from date of all loan disbursements during any given principal deferment period.

During the course of the loan, Headwaters' staff shall have the authority to postpone principal payments due to special circumstances or unanticipated difficulties of the borrower, not to exceed a period of ninety (90) days and for a maximum of two (2) times within any given twelve (12) month period. Headwaters staff shall also have the authority to re-amortize principal payments in one of the following methods: (1) over the remaining term of the loan; (2) retain existing amortization schedule with postponed principal being treated as a balloon payment on the last payment date; and/or (3) re-amortize the loan period based on the original principal and interest payments.

When considering requests for either postponement of principal payment obligations and/or loan re-amortization, the Loan Review Committee and/or Headwaters' staff will consider the request on its merits alone and will base its decision on a thorough analysis of the business' financial statements, especially historical and projected cash flows. Moratoria on principal payments will be granted only for businesses that can evidence the ability to achieve a positive cash flow within a specific period of time. During any period of postponement of principal payments, interest shall continue to accrue and be payable at a minimum on a monthly basis.

Deferment of principal and/or interest, or both, in a loan default situation, will be considered on a case-by-case basis depending on the individual borrower's circumstances.

LOAN REVIEW PROCESS:

Loan applications will initially be reviewed by Headwaters' staff to determine completeness and program eligibility. Once an application is deemed to be complete, it will be advanced to the formal review process on a "first come first serve basis". If the application is determined by Headwaters' staff not to meet program guidelines or not be financially feasible, Headwaters' staff shall have the authority to deny the application.

For the loan requests determined to be complete and program eligible, the Loan Officer will be responsible for preparing a Credit Request to the Headwaters LRC, including a recommendation for approval or denial of the request.

The City of Boulder City Council have authorized Headwaters RC&D Area, Inc. Board of Directors to act as the Administrative Board for the Boulder RLF. In order to provide financing and lending expertise to the loan review process, the City of Boulder Council appoint the Headwaters Loan Review Committee (LRC) to act as the approving authority for loan requests from the Boulder RLF, with final approval coming from the City of Boulder Council.

Headwaters LRC is comprised of a maximum of nine (9) members with five (5) members required to review each loan and constitute a quorum. A minimum of 51% of the LRC members reviewing the loan request are required in order to take official action. At least one member with financing experience will be present for each loan decision. LRC member appointments strive for balance and diversity in member vocation and are appointed by the HRCB Board of Directors. LRC members serve a term of two (2) years with additional two (2) year terms approved by Headwaters Board of Directors. The Headwaters LRC meet on an as-needed basis to review loan packages.

The LRC will review each application presented by the Loan Officer for compliance with program objectives, approve application requests with standard conditions, approve the request with standard conditions and special contingencies, deny the request with reasons explained and/or table the request for future consideration.

Each application will be evaluated for business feasibility, separately on a first-come, first-served basis. Should requests for funds exceed funds available, applications that are deemed to represent a likelihood of broadest impact will receive the most favorable review.

Headwaters' staff will provide all loan origination and closing duties necessary to disburse funds to the applicant.

PRIORITIZING APPLICATIONS:

In addition to determining feasibility of individual applications, Boulder RLF applications will be prioritized as follows:

1. Business expansions to enhance job retention or creation;
2. New business, locating within the City of Boulder, that creates jobs;
3. Start-up of business with job creation potential;
4. Revitalization of business property;
5. All requests that do not meet the criteria above

LOAN REVIEW CRITERIA:

All applicants must meet the following criteria:

1. The level of Boulder RLF assistance is appropriate in relation to the economic benefit expected to result from the project.
2. Proposed management is experienced in the type of business activities noted in the application and has the capacity to successfully manage the entity to be assisted.
3. The application is complete as submitted and contains accurate information.
4. The earnings projections submitted with the application are realistic and attainable, are supported by historical trends and industry norms, and indicate that the projected cash flow is sufficient to support the proposed increased debt.

5. The Boulder RLF funds would be adequately secured with all reasonably available assets and/or personal guarantees.
6. The application documents a sound, well-reasoned proposal with a perceived strong chance for success if Boulder RLF funds are received.
7. Any private or public-sector lenders or equity partners involved in the project have provided firm commitment of funds, in writing.
8. The project is ready to proceed if notification of loan approval is received and implementation will begin immediately.
9. The application demonstrates that the project will support itself over time.

Applications with an insufficient business plan or loan application, questionable viability, indemonstrable need, or other problem may be either restructured, re-negotiated, or not funded depending on the severity and nature of the problems identified.

FUNDING AVAILABILITY:

The Loan Officer will notify the City of Boulder and the Headwaters LRC as to the availability of funds for business development loans. Periodically, news releases and/or advertisements will be made in local papers of general circulation throughout the City of Boulder and Jefferson County. The Loan Officer will also inform other local economic development organizations, financial institutions, and any other interested parties in the area as to availability of funds.

INVESTMENT OF PROGRAM INCOME:

Program income (principal and interest repayments from loans) will be deposited into an interest-bearing account at First Boulder Valley Bank. All investments will require FDIC insurance or security collateral agreement in the event the investment exceeds FDIC insurance limits. Passive interest earned will be considered as program interest income and used to defer administrative expenses and may fund business development loans when funds are available.

LOAN SERVICING:

1. Headwaters' staff will perform all loan servicing activities. Borrowers will make monthly payments to Headwaters in accordance with the terms of the promissory note executed at loan closing. All loan payments will be deposited immediately into the Headwaters account for this program located at a Federally insured institution. Past due payments will be assessed a Late Fee of 5% or \$25.00, whichever is less, whenever the loan payment is ten (10) days past due.

2. The calculation of principal and interest and the updating of loan balances will be performed by the Loan Officer's automated accounting system and the appropriate deposit of funds will be accomplished according to instructions of the Loan Officer, who will identify the institution and the accounts to be utilized for those purposes.
3. The Loan Officer will monitor the receipt of payments and will notify the Loan Review Committee in the case of a default of payment. The Loan Review Committee shall review the case and make a recommendation in regard to a course of recovery.
4. All payment and default activities are governed by Headwaters general Lending Policies and Procedures.

PROGRAM INTEREST INCOME USE:

Program income for the Boulder RLF shall be defined as the gross income received by Headwaters, directly generated by the Boulder Revolving Loan Fund. Program income shall include principal repayments, interest earned on outstanding loan principal, interest earned on accounts holding RLF program income, all loan fees and loan-related charges received from borrowers, and other income generated from RLF operations including proceeds from the sale, collection, or liquidation of assets acquired through defaults of loans.

1. 70% of RLF interest income will be used for relending. Loans made with revolved program income are subject to the same terms and conditions as those applicable to this agreement.
2. 10% of all interest income will be used to capitalize a loan loss reserve specifically designated for the Boulder Revolving Loan Fund. Funds allocated for the Boulder RLF Loan Loss Reserve will not exceed \$30,000 or 10% of the outstanding principal balance of loans, whichever is greater. Program interest collected above these amounts will be directed into the fund for relending.
3. 20% of program interest income will be used by Headwaters to defray administrative expenses associated with the ongoing management of the fund.

Headwaters shall not use repayments of principal of loans for administrative expenses. Repayments of principal must be returned to the Boulder Revolving Loan Fund.

Loans made with revolved program income are subject to the same terms and conditions as those applicable to this agreement.

RECORD KEEPING:

1. The Loan Officer will keep all loan activity records on an automated loan tracking system.
2. The accounting for the Boulder RLF will be accomplished through Headwaters staff Fiscal Officer

3. The accounting system utilized by the Fiscal Officer for the Boulder RLF will be performed by the Fiscal Officer in conformance with GAAP. (Generally Accepted Accounting Principles).

AMENDMENTS TO THE BOULDER REVOLVING LOAN FUND PLAN FOR THE CITY OF BOULDER

Proposed amendments will be submitted to the Montana Department of Commerce for prior approval. Once approved, the Boulder City Council may amend the guidelines by a majority vote and will become effective as of the date of such approval.

APPROVED:

CITY OF BOULDER

BY: *Russell Stulick*
_____, Mayor
City of Boulder City Council

DATE: 4/15/19

ATTEST: *Jalen Horne*

DATE: 4/15/19

