

Hinesburg Revolving Loan Fund Policies and Guidelines

Section 1 – Introduction

The Hinesburg Revolving Loan Fund is being established as a result of the redevelopment of the Saputo Cheese Plant. In the redevelopment process Vermont Smoke and Cure applied for and received a Community Development Block Grant (CDBG) from the State of Vermont. One of the stipulations of this loan is that it be repaid to the local community and that the community must then create a mechanism to redeploy this money to help further economic development. The total amount of this revolving loan fund will be \$265,000 when the Vermont Smoke and Cure loan is fully repaid.

As we looked at various options to develop the Hinesburg Revolving Loan Fund and to nurture business growth in our community, we recognized that we needed technical support and advice to make sure that this money was put to good use and that there was a sustainable process to manage and administer the program.

After meeting with various organizations it was determined that working with the Addison County Economic Development Corporation was the optimal solution.

The ACEDC is a non-profit organization based in Middlebury that has been working to create and retain a flourishing business community in Addison County that supports vibrant fiscal activity and improves the quality of life of all residents. ACEDC operates several Revolving Loan Funds to help fulfill its mission of helping businesses in all stages of growth retain and create good paying jobs in Addison County.

Section 2 – Administration

Until such time as the Town of Hinesburg and the Hinesburg Economic Development Committee have the internal capacity and expertise to administer and manage the Hinesburg Revolving Loan Fund, the fund will be administered and managed by the ACEDC. The work of the ACEDC will be performed by the Executive Director and Bookkeeper of the organization.

The Town of Hinesburg, through the HRLF Committee and Selectboard, shall be responsible for making decisions on the awarding of funds. Recommendations will be offered by the loan committee and approved by the Hinesburg Selectboard. The ACEDC will then be charged with processing and managing the documents and details of the loans.

The Town of Hinesburg shall be responsible for creating the final legal documents and auditing the performance of the fund based on information provided by the ACEDC.

The HRLF Committee shall be a standing committee of the town and members will be approved by the Hinesburg Selectboard. Details on the size and composition of the committee are found in the HRLF Committee Membership document.

Section 3 – Security

Loans made using funds will be secured by all business assets of the company. HRLF is typically in last priority position behind senior lenders and other bank debt; however, HRLF is ahead of investors. Personal assets may be used as collateral when business assets are inadequate or unverifiable.

In addition, HRLF requires the personal guarantee of all principals with 20% or greater ownership in the business, unless otherwise specifically approved by the HRLF Committee. In the event that no partner holds a 20% share, the personal guarantee could be required of the individual with the largest ownership share. The guarantee of the operating or parent company may also be required depending on the corporate structure of the business.

Section 4 – Use of Funds

These funds will be disbursed to ultimate recipients in Hinesburg, Vermont, in order to assist with financing business and economic development activity to create or retain jobs in Hinesburg. Funds can also be used for affordable housing and other community development projects (public facilities and public services) to benefit primarily low-to-moderate income persons.

Section 5 – Fees and Charges

1. A \$100 application fee is required at the time of application.
2. A closing fee of 1% will be assessed at closing to defray origination expenses.
3. Borrower will pay all attorneys', filing, and other fees associated preparation of loan documents.

Section 6 – Goals and Objectives

The goal of these monies is to increase economic activity, economic prosperity, and employment in Hinesburg. Funds can be used to support economic development, housing, and other community development projects (public facilities and public services) to benefit primarily low-to-moderate income persons.

The objectives of funds include:

- The provision of “gap” financing to start-up and established businesses that are unable to obtain all of the credit needed from a bank. Our RLF is a partner to the Vermont banking community, not a competitor.
- Retention and creation of jobs in eligible industries and other businesses that drive or have the potential to drive economic prosperity in Hinesburg.
- Where possible, support of women and minorities in business is encouraged.

Section 7 – Program Guidelines/Eligibility Criteria

In order to be eligible for Program assistance, an applicant must meet the following requirements:

- (a) The business activity that will be funded by this Loan Program must be located in the Town of Hinesburg, Vermont, with priority given to businesses owned by residents of the Town of Hinesburg.
- (b) The business activity to be undertaken with assistance from the Program must align with the Town Plan.

Types of Business:

Any organization existing or seeking to establish itself in Hinesburg may apply for a loan.

Preference will be given to applicants that have the potential for growth and who can show that the proposed financing will yield substantial economic benefits to the Town of Hinesburg, Vermont as measured by the number of jobs created or retained, or valuable services resulting from its activity.

Preference will also be given to small businesses. Businesses owned by women, minorities, and those defined as disadvantaged are encouraged to apply for loans under this RLF.

Use of Funds:

Funds must be used for community development projects, the establishment of new businesses, expansion of existing business, creation of employment opportunities, or saving existing jobs.

RLF will lend up to \$50,000. The minimum loan amount will generally be \$5,000, except in the case of emergency situations where a lesser sum will be considered. Some injection of owner equity will be required.

Loans may be used for, but are not limited to:

- Business and industrial acquisitions when the loan will keep the business from closing, prevent the loss of employment opportunities, or provide expanded job opportunities
- Business construction, conversion, enlargement, repair, modernization, or development
- Purchase and development of land, easements, rights-of-way, buildings, facilities, leases, or materials
- Equipment purchases, leasehold improvements, machinery, or supplies
- Start-up operating costs
- Working capital (long term)

Loans from RLF may not be used for:

- Lines of credit
- Refinancing existing debt (except in limited circumstances)
- Gambling facilities
- Any illegal activity

Section 8 – Loan Terms and Rates

Term of Loan:

All loans made under this program will be term loans with the funds fully drawn down at the time of the loan closing. The term of any specific loan will be based on the repayment capability of the business and on the estimated life of the asset being financed. In general loans will have a term of 3 to 10 years.

Interest Rates:

Interest rates for loans made through the RLF will be set at the Wall Street Journal Prime Rate + 3% to reflect the additional risk of these loans, and to encourage borrowers to refinance using conventional loans as soon as it is feasible. The Loan Committee will review this rate at least annually to ensure that they reflect market conditions.

Section 9 – Application Process

The process for receiving and closing revolving loan fund requests is in the application form for further details.

Application Processing

Loan Applications. Applications for RLF financing must include all of the information required by the RLF Application Form, and any additional information as may be reasonably requested by Hinesburg RLF.

Application Fee. A \$100 application fee must accompany loan application.

Closing Fee: HRLF will take a closing fee of 1 percent of each loan to cover administrative costs. This amount will be netted out from the loan proceeds to the borrower.

Attorney Fees. All fees and expenses incurred in connection with the perfecting of the RLF's security interests shall be paid by the borrower.

Application Processing. The processing of loan applications will generally consist of the following:

- (a) Review applications for completeness and procure appropriate additional information.
- (b) Review for RLF eligibility criteria.
- (c) Determine economic feasibility, perform credit analysis, and assess risk.
- (d) Determine amount and terms of RLF financing, including appropriate security.
- (e) Prepare written credit analysis report to the HRLF Loan Committee summarizing the review process and providing recommendations as appropriate.

HRLF Committee Approval. The HRLF Committee will make recommendations and the ultimate authority rests with the Hinesburg Selectboard. Such authority shall include the commitment to lend RLF funds, the interest rate(s) to be charged, the repayment terms, and the requisite security for the loan. The application of other appropriate conditions of lending and covenants of the borrower shall be determined by the HRLF Loan Committee, subject to input from Town of Hinesburg attorney.

Loan Disapproval.

- (a) Loan applications may be disapproved by the HRLF Committee based on a lack of application completeness, lack of accuracy, or a failure to meet the eligibility criteria pursuant to RLF guidelines. In such instances, the applicant will be notified in writing of the reason(s) for disapproval.
- (b) Loan applications may be disapproved by the HRLF Committee if the HRLF Committee determines that RLF financing is clearly inappropriate based on the reviews conducted in accordance with guidelines. In such instances, the applicant will be notified in writing of the reason(s) for disapproval.
- (c) Loan applications may be disapproved by the HRLF Committee for any reason or reasons which represent a reasonable determination that the approval of the RLF application would not meet the objectives of the program and/or would not represent an appropriate or prudent use of program funds. In such instances, the applicant will be notified in writing of the reason(s) for disapproval.

Post-Approval Process

Commitment Letter. A commitment letter shall be sent to the applicant upon the approval of an RLF loan which will include, at a minimum, the following information:

- (a) The amount of the loan approved, the applicable interest rate, the term of the loan, the terms of repayment, and the expiration date of the commitment.
- (b) The required use of the loan funds.
- (c) HRLF's requirements for collateral and additional security – including guarantees, pledges of assets, etc.
- (d) Summary information regarding employment.
- (e) Any other conditions of lending.
- (f) A listing and explanation of any fees to be charged and other closing costs which will be the responsibility of the borrower.
- (g) A listing of those conditions and requirements of the borrower which must be fulfilled prior to a loan closing.
- (h) Any other information which could reasonably be expected to influence the borrower's decision to accept the terms of the loan commitment.

Loan Closings. Hinesburg's attorney shall have the responsibility to prepare and/or require the preparation of all appropriate and necessary closing documents. The borrower shall be required to pay all closing costs incurred by Hinesburg, including the fees and expenses of the Hinesburg's attorney. Hinesburg's attorney shall determine the appropriate closing documents to be executed. Such documents shall generally include, but are not limited to, the following:

- (a) A loan agreement which includes a description of the loan terms and security, appropriate representations and warranties, the conditions of lending, affirmative and negative covenants, including but not limited to compliance with applicable federal laws and regulations, default provisions, and any other provisions which may be appropriate.
- (b) A note or notes to evidence the indebtedness and the terms of repayment.
- (c) The appropriate documents to evidence and liens, guaranties, and such other security as may be required by the terms of the loan.
- (d) Other appropriate documents as determined by Hinesburg's attorney.

Security. Hinesburg's attorney will be responsible for perfecting all of Hinesburg's security interests including, where appropriate, the execution of security agreements, the filing of financing statements, the execution and filing of the execution of guaranties, and any other appropriate actions to adequately protect Hinesburg's security interests. All fees and expenses incurred in connection with the perfecting of the Hinesburg's security interests shall be paid by the borrower. Inter-creditor agreements will be executed where appropriate to further protect Hinesburg's interests and to facilitate the processing of defaults and foreclosures.

Loan Disbursements. The full amount of the loan request will be disbursed at closing, less any fees due to Hinesburg for attorney fees, 1% closing fees, perfecting of liens, etc.

Section 10 – Monitoring and Reporting

Annual Financial Review. Initially, ACEDC will do this. When appropriate, this will be done by the Town of Hinesburg. ACEDC will at minimum conduct an annual financial review for all borrowers based primarily on the annual federal tax forms and other financial information submitted by the borrower. Quarterly reviews may regularly be conducted. Additional information may be procured as needed. The reviews may be presented to the HRLF Loan Committee for further action or recommendations as appropriate.

Delinquencies. ACEDC, as administrator, will allow a (10) day grace period calculated from the payment due date before determining that a monthly loan payment is delinquent. A late fee of 5% of the delinquent payment amount will be charged to all delinquent monthly payments. Failure to make a delinquent monthly payment for more than thirty (30) days after the due date shall constitute a default and entitle ACEDC and Hinesburg to pursue any and all enforcement remedies. ACEDC's acceptance of any payments, other than payment in full of the delinquent amount plus the late fee within thirty (30) days or less of the due date thereof, shall not constitute a waiver of any of Hinesburg's rights nor a cure of the default.

Adjustment of Terms, Rates, and Conditions. Requests by the borrower for adjustment of any of the terms, rates, and conditions of the loan will be reviewed to determine whether the adjustment is in the best interests of Hinesburg. The HRLF Committee will have the authority to make adjustments as appropriate, with approval by the Selectboard.

If a company moves its headquarters or 25% of its full-time equivalent employees out of Hinesburg, then its loan(s) may become immediately due and payable.

Additional Monitoring and Reporting. All past due loans will be reported to and reviewed by the HRLF Loan Committee. In general, past due loans over 30 days will be reported quarterly to the Hinesburg Selectboard with an explanation of the reason for delinquency and actions being taken to cure the delinquency.

Annually, the Loan Committee will provide summary information of all RLFs to the Hinesburg Selectboard. Further, the RLF portion of the annual audit prepared by our outside auditor will be reviewed in depth with the Hinesburg RLF Committee and the Hinesburg Selectboard.

Section 11 - Servicing and Liquidation

The administration of the Hinesburg RLF is provided primarily by ACEDC's bookkeeper, Jennifer Molineaux, with oversight from the Executive Director, Robin Scheu. ACEDC uses Portfol software to manage all of its RLFs. Portfol is a program developed by the Philadelphia Industrial Development Corporation specifically for RLF management. All invoicing, principal and interest payments, fee assessment, loan histories, etc. are tracked or managed through Portfol. ACEDC currently has capacity to deal with significantly more volume on this system so the addition of new RLFs can easily be handled.

With regard to collection and liquidation, ACEDC will allow a 10-day grace period calculated from the payment due date before determining that a monthly loan payment is delinquent. A late fee of 5% of the delinquent payment amount will be charged to all delinquent monthly payments. Failure to make a delinquent monthly payment for more than thirty (30) days after the due date shall constitute a default and entitle Hinesburg to pursue any and all enforcement remedies. ACEDC's acceptance of any payments, other than payment in full of the delinquent amount plus the late fee within thirty (30) days or less of the due date thereof, shall not constitute a waiver of any of Hinesburg's rights nor a cure of the default.