



Holly City Development Corporation (HCDC) has created a small business loan program that targets small business startups and expansions in Millville's Center City Neighborhood.

The parameters of the HCDC Loan Program are as follows:

Use of Funds

Funds may be used for inventory, supplies, furniture, fixtures, machinery, equipment, new construction, site improvements, renovations and working capital. **The funds cannot be used to refinance existing debt.**

Loan Amounts

Under the HCDC loan program, businesses can borrow up to \$50,000 depending upon the project and business.

Loan Fund Terms:

- Maximum loan amount is \$50,000
- Term of loan up to 10 years
- Initial interest rate is 5% fixed
- No principal or interest payment for 1st year
- Principal and interest payment begin in year 2
- At the sole discretion of HCDC, if the borrower has met all loan obligations for a minimum period of 4 years, HCDC may forgive the balance of the loan if it determines that is in the best interest of the loan program.
- Loan can be forgiven in year 6 if:
 - o Business is current on all loan program payments with no delinquency
 - o There is no current default
 - o The business has certified that it is still open and operating (must be done each year of the loan)
- Loan will NOT be forgiven and will need to continue to be paid in years 6 through 10 if there is delinquency in payment or there is a default.

Borrower's Equity

A minimum of 10% is required; however, use of funds determines the amount required.

Rates & Terms

The interest rate is fixed at 5%. The term of the loan is 10 years.

Fees

There is a non-refundable application fee of \$100 and a \$400 processing/servicing fee paid at closing. The borrower is also responsible for paying fees for preparation and recording of loan documents.

The parameters outlined above are general guidelines only. The HCDC reserves the right to adjust the parameters on a project-by-project basis depending upon the merits of the application and the impact on the local community.

Assessment of the credit quality of a borrower requires the underwriter to analyze the nature of the request to determine the financial history, credit history, prospects for favorable impact, profitability and the community perception of the business and its owner.

HCDC staff is responsible for the recommendation of the transaction to the HCDC Board of Directors. Staff is responsible to ensure the authenticity of the information provided and the ongoing management of the revolving loan fund portfolio.

II. Due Diligence Guidelines

The following summarizes HCDC's effort to balance an innovative and flexible approach to meeting the needs of Center City Millville businesses. Appropriate due diligence and credit transactions will be underwritten following the criteria and methods outlined below. HCDC staff shall use their best efforts to conform to the guidelines and parameters when applicable. It shall be noted that the guidelines and parameters are not limited to the topics discussed below.

- Determine if the principals of the business have the depth of business experience and skills necessary to successfully manage the business.
- Determine if the borrower has conducted business in an ethical and legal manner.
- Determine ownership structure and authority to borrow.

III. Rates, Terms and Eligible Uses of Financing

A. Rates

Interest rates shall be fixed at 5%.

B. Terms

The terms of HCDC financing shall be as follows:

- Working Capital – up to a maximum of 5 years.
- Machinery and Equipment – up to a maximum period of 10 years or the economic life of the machinery and equipment, whichever is less.
- Renovation – up to a maximum of 10 years.

C. Eligible Uses

Eligible uses of financing under the HCDC revolving loan fund include the following:

- Working Capital to be used for inventory financing, receivable financing, training and marketing financing.
- Renovations.
- New construction and site improvements.
- Acquisition of machinery and equipment.

IV. Underwriting Policy

The goal of this program is to establish a long-term revolving loan program that will provide much needed gap financing for projects that create and retain jobs in the Millville Center City Neighborhood. With this as the guiding premise, the determination of the ultimate recipient of HCDC funding will require a balance of conventional commercial credit underwriting and the review of the proposed benefit of each project presented for funding.

Conventional commercial credit analysis will be based on the following criteria:

A. Credit

The historical ability of the ultimate recipient and the principals in servicing obligations.

B. Collateral

The availability of assets to cover the outstanding obligation as a secondary source of repayment. All attempts will be made to procure a 1:1 collateral coverage on margin.

C. Capacity

The historical and future ability of the borrower to service existing and proposed obligations from cash flow. Historical information and pro-forma information will be required to make this determination.

D. Conditions

A review of existing and projected conditions for the segment of the economy that is served by the business requesting funding.

Collateral Review

HCDC will require collateral for any financing provided in the most prudent manner possible. In the negotiation phase of the financing transaction, staff will request and negotiate for the strongest feasible collateral package as security for the loan. All business assets, personal assets (i.e., mortgages on residence), and personal guarantees will be reviewed to attain the most secure collateral position possible. All collateral values will be documented with acceptable forms of validation. Collateral will be margined using conventional discounting based on collateral composition.

Business Location

Businesses will need to be located within Millville's Center City Neighborhood boundaries. Home-based businesses will need to be located within zone boundaries, show evidence of sufficient collateral, be tax compliant, and provide copies of a current W-9 and NJ Business Registration Certificate.

Refinancing Policy

HCDC financing shall not be used to refinance existing debt. This could be considered as their minimum of 10% of the Borrower's Equity into the project.

Technical Assistance Strategy

HCDC will provide technical assistance either through its internal staff or through partnerships with external sources. HCDC staff will be available to clients for support and assistance, and will, where appropriate, refer clients to service providers within the community.

Administration

The HCDC staff, under the management of the Executive Director, shall be responsible for all aspects of the program, from intake, loan analysis and servicing.

V. Application Process

Completion of a revolving loan fund Application Packet and Personal Financial Statement is required.

Depending upon the nature of the project and the financing sought, certain portions of the application packet may be irrelevant or unnecessary for underwriting purposes. It is the responsibility and discretion of HCDC staff, under the management of the Executive Director, to determine the information required to review the application and make a recommendation to the HCDC Board of Directors.

A. HCDC Application by Section

To the extent required, the following sections must be completed by the applicant:

- Section I – General Information
- Section II – Ownership and Management
- Section III – Customer History/Profile
- Section IV – Description of Proposed Financing
- Section V – Market
- Section VI – Collateral
- Section VII – Demographics

B. HCDC List of Exhibits

The List of Exhibits is a required part of the HCDC Loan Application. Depending upon the company, its history and length of existence, and the reason for which financing is sought, certain items may or may not pertain to each application.

Listed below are the items which must be submitted to the HCDC staff:

- A cover letter summarizing the application including a statement regarding the need for assistance and the type of assistance required.
- Completed Application for Financial Assistance.
- Dependent upon the source of the funding to be used to finance the loan, the block and lot number of the business to determine location of project within the required boundary restrictions.
- Certificate of Incorporation or Partnership Agreements (if applicable).

- Business financial statements and/or tax returns for the previous three years (if applicable).
- Personal financial statement and federal tax returns for the past two years from all owners with 20% or more ownership.
- Business Plan (for businesses with less than two years history) including the following sections: Executive Summary, Company Description, Market Analysis and Evaluation, Marketing Plan, Management Plan, Financial Plan, Appendices and Supporting Data.
- Property and/or equipment appraisals (if applicable).
- Financial commitment letters (if applicable).
- Non-refundable application fee.
- Project floor plans, site plans and approvals (if applicable).
- Project's timetable.
- Evidence of project site control – or permission from landlord if renting business location.
- Environmental/Regulatory approvals and/or historical designation (if applicable).
- Cost estimates for construction or renovation work to be performed (if applicable).

Other items that may be required as determined by HCDC staff may include but are not limited to letters of reference, resumes of key staff and/or owners, contracts, legal descriptions, patents, copies of leases, feasibility studies, or any other documents that the HCDC staff in its analysis of the project deems necessary.

VI. Personal Financial Statement

Unless deemed unnecessary by HCDC staff based upon the nature of the project and the financing sought all applicants owning 20% or more in a business must submit and have on file with the HCDC a Personal Financial Statement. If an applicant has already applied for financing with another lender and has completed a Personal Financial Statement for that lender, the HCDC will accept a copy of the already completed Personal Financial Statement if not more than 90 days old. However, HCDC may require any individual submitting a Personal Financial Statement from another agency to sign the HCDC Personal Financial Statement. Moreover, the HCDC retains the right to perform a credit check on the individual.

VII. Presentation Requirements

For all loans, the HCDC staff will prepare a written narrative for presentation to the HCDC Board of Directors. The format of the presentation may vary depending upon the individual project being considered. However, the following categories shall generally be encompassed within the presentation:

A. Summary of Applicant and Request

The summary shall include the applicant's name and address, amount of funds sought from the HCDC loan program, total project cost, source of remaining project funds identifying all participants in the project, rate, terms, and brief description of project, proof that applicant is located in Millville's Center City Neighborhood.

B. Background

This section may include the history of the company and its formation, purpose and operations, a description of company ownership or management, a brief summary of the qualifications of the individuals mentioned, and a more detailed description of the project for which HCDC financing is sought.

C. Collateral

This section includes a description of the proposed collateral to secure HCDC financing.

D. Guarantors

This section includes a list of the individuals and/or entities (if any) who will guarantee repayment of HCDC financing.

E. Lien Position, Dollar Amount and Name of Prior Lienholder

This section includes information about lienholders in a superior position to proposed HCDC security interest.

F. Location of Property and Appraisal/Value Information

If applicable, this section provides information about project site, as well as property to be used as collateral for HCDC financing.

G. Financial Information

This is a summary of financial information submitted by applicants. This section shall include a financial history and/or projections for the business. Information regarding owners' personal finances and credit history may also be included where applicable.

H. Substantiation

The substantiation section shall include the HCDC staff financial analysis of the application. The analysis is compiled using the financial information received and a review of the income statement. The review of financial information will identify major components, sales, cost of goods, gross sales, operating expense, non-cash items such as depreciation and profitability. Mention will also be made of any variances that would require a comment at the discretion of HCDC staff.

The financial analysis shall focus on three principals.

- Historical ability to repay proposed funding.
- The level of proposed funding requested.
- The secondary (collateral) and tertiary (guarantors) sources of repayment.

The heart of review for any funding request shall be the financial information provided. The integrity of the program funds and the benefit provided will be balanced in making the decision to fund specific projects.

The decision as to the specificity and level of review that will be required is at the HCDC staff's discretion.

Whenever possible on all funding requests, two to three years of historical information will be analyzed. Acceptable forms of financial information will generally be accountant prepared tax returns or accountant prepared financial statements, although staff may make exceptions where prudent and reasonable. All attempts will be made to spread the financial statements using standardized spreadsheets that provide common statements with ratio analysis. HCDC staff will provide a written discussion of the salient facts.

This section shall also include the following ratios wherever applicable:

Debt Service Coverage Ratio

This is a listing of the proposed debts and annual obligations compared to net income before tax, depreciation, amortization if it exists, and interest expense. This will provide a ratio showing the amount of income available to service the debt compared to the amount of the annual debt payment.

Loan to Value Ratio

This is an analysis of the collateral provided by the applicant as compared to existing and proposed liens and/or security interests. Discounts may be taken on collateral at the HCDC staff's discretion. The HCDC staff shall discount collateral based upon the individual facts of each project/application; however, the following standard discounts may be used as a guide:

- Accounts receivable 90 days or less: up to 80% of book value.
- Inventory: book value at 50%.
- Materials and equipment either documented by invoice or equipment appraisal (if it is the primary collateral source): discounted by 20%.
- The discounted values are then totaled for an available amount to cover the obligation.

Under appropriate circumstances, a loan to value ratio of less than one to one will be accepted at the discretion of the HCDC staff and Board of Directors.

I. Recommendation

This section shall set forth the recommendation of the HCDC staff based upon its review and analysis of the application. Depending on the project, this section may also include a listing of the strengths and weaknesses of the application (i.e. job creation, inability/ability to repay debt, operating history, market acceptance, owner liability, projected growth, character, etc).

Any conditions of approval shall also be set forth, and may include but shall not be limited to:

- Collateral coverage covenants.
- Personal or corporate guarantees.
- Assignment of life insurance.

- Intercreditor agreements between participating lenders.
- Call provisions.
- Review level annual financial statements.
- Assignments.

The conditions placed on specific projects are done at the discretion of the HCDC staff.

The primary focus of the revolving loan program is economic growth and job creation. While the overall intent of the program is to maintain its viability, certain risks are taken when the benefit of the project is demonstrated by job creation and public benefit.

IX. Loan Approval

All projects and applications seeking HCDC funding shall be presented to the entire HCDC Board of Directors who shall have the sole authority to approve or reject the application and any recommendations of the HCDC staff.

A. Commitment Letter

Once approved, HCDC staff shall draft a Commitment Letter with terms and conditions as stated in the presentation along with any additional conditions rendered by the Board of Directors.

B. Executing the Commitment Letter

Signing of the Commitment Letter on behalf of the HCDC is reserved to the Executive Director. Once the Commitment Letter has been executed by all parties, a closing process will ensue.

C. Closing Process

Once all necessary approvals are received by HCDC staff, a Borrower's Information Sheet and any other pertinent documentation or information are to be forwarded to the HCDC attorney to perform preparation of documents and schedule closings. The attorney is responsible for preparing all documents required in the closing. The attorney and/or HCDC staff shall ensure that all required documents are executed and provided prior to disbursement of funds. Loan proceeds are then disbursed creating a legally binding obligation with payments as identified in the Note to the borrower. The closing attorney is responsible for filing all necessary documents with the appropriate agencies. Once documents have been filed, they are returned to the HCDC to be made part of the borrower's file.

Records are kept on file in the HCDC office, including original copies of the Commitment Letter, Note, Mortgages (if required), Security Agreement, and Guarantees.

The Borrower is responsible for paying a \$400 closing cost fee which includes the preparation and filing of loan documents.

X. Documentation Requirements/Annual Servicing

Once a loan is closed and funds have been disbursed, a file is established within the HCDC loan management system. Information is kept current pertaining to the receipt of tax returns, insurance expirations, employment verifications, and any other information requested from a recipient on a periodic basis.

XI. Past Due, Collection and Bad Debt Policy

Loan status will be reviewed on a monthly basis using the past due report generated by the Loan Servicing Agent and/or the Loan Management System.

At the discretion of the Executive Director, the following steps will be implemented to ensure a proactive management of the portfolio and minimize possible losses.

- 30 days past due

A telephone call or standard letter is sent to the principals requesting payment within 15 days.

- 60 days past due

A standard letter is sent informing the principals that payment must be received within 15 days or the matter will be referred to counsel.

- 90 days or more past due

Staff will confer with the Board of Directors as to how to proceed. Counsel may issue a right to cure. Through discussions with counsel and the clients, it will be determined if additional legal steps are required to protect the portfolio. This could include foreclosure and auction of assets.

HCDC staff will work with clients and take into consideration the possibility that allonge or modification of the existing note may be required to resolve the situation. It will be the intent of this policy to provide the adequate flexibility to work with the client at each step of the process to preserve the intent of the program, the creation and retention of jobs, while managing the portfolio in a prudent manner.

On an annual basis, staff, in consultation with legal and financial advisors, will review all loan account activity and make recommendations as to which loans are to be considered uncollectible. To determine whether a loan is uncollectible and should be written off, the following criteria shall be used:

- It is reasonably estimated that the cost of collecting the debt would be equal to or exceed the amount of the debt.
- The debtor does not and will not for the foreseeable future own or has the right to own assets from which the HCDC could collect the debt.
- HCDC is and will be for the foreseeable future unable to collect the debt from the debtor or from anyone owing the debtor money or holding assets of or from the debtor.
- The debtor is subject to a pending bankruptcy proceeding in which it is reasonable to conclude that the debt will be discharged and that the HCDC will receive none or an insubstantial share of the assets of the bankruptcy estate.
- The debtor is deceased and there are no assets in the debtor's estate from which HCDC could collect the debt.

At the next meeting of the Board of Directors, staff shall present these recommendations. The Board of Directors shall make a determination as to which accounts, if any, are to be classified as uncollectible. The Board's determination will be presented to the auditor with the year-end audit information.