



Economic Development Authority

COMMERCIAL REHABILITATION LOAN POLICY

I. Purpose

The purpose of the City of Pine City Economic Development Authority (EDA) Commercial Rehabilitation Loan program is to provide funding to commercial business owners to make improvements to their commercial buildings including, but not limited to: exterior repairs, code violation corrections and energy improvements – or work necessary to put the property into decent, safe, sound and sanitary condition.

II. Scope and Authority of EDA Activities

The administrative policies and procedures are a guideline for internal requirements of the Commercial Rehabilitation Loan program and how it should be managed by the Pine City EDA. The EDA was created with the intention of assisting small businesses primarily by providing financial assistance for growth and expansion of local, small businesses. The EDA and its programs are intended to provide such assistance within the specified boundaries of the City of Pine City. Any revenue generated by the Commercial Rehabilitation Loan program to the EDA is incidental to the community benefits as measured by the increased tax base, the creation and retention of jobs, expanded business ownership activities and improved community services.

Chapter 469 of the Minnesota State Statutes, as amended, authorizes the EDA to make loans to prospective private businesses. Recipients of financial assistance under this program are subject to non-discrimination requirements of the laws and policies governing such government assistance.

III. Project Financed by the Commercial Rehabilitation Loan Program

The purpose of the City of Pine City EDA Commercial Loan Program is to provide assistance to commercial business owners. This may occur by directly providing financing to the businesses or indirectly by providing gap financing to an entity which will provide services to the business.

IV. Eligible Applicant

The following describes all the eligibility requirements of an applicant to the Commercial Rehabilitation Loan program. If an applicant cannot meet all of the following requirements, they are not eligible:

1. Applicants must be small and medium sized businesses, which are organized as sole proprietorship, partnership, Limited Liability Company, or corporation. Non-profits are not eligible.



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2. Building where the business is located must be in the City of Pine City's Central Business District or General Business District.
3. Applicants must be an owner/occupant or an owner with a rental occupant of a building used for commercial purposes. This ownership may be either free of debt, through a mortgage or recorded contract for deed. If there is a contract for deed, the holder of the contract must be part of the application.
4. Applicants must be able to provide 80% of the project cost from other sources.
5. The building must have an active business in its premises, or have one moving in within six months of the completion of rehabilitation activities.
6. Applicants must be current on paying mortgage payments, property taxes and municipal utility bills.
7. Applicants must provide proof of sufficient property insurance to rebuild in the case of fire, store or other accidents.

V. Eligible Project Costs

Work or activities which are necessary to put the property into decent, safe, sound and sanitary condition are considered eligible project costs for the Commercial Rehabilitation Loan program, including but not limited to:

1. Exterior repairs (siding, roofing, façade, signs, awnings)
2. Code violation corrections
3. Energy improvement

VI. Ineligible Project Costs

The following work or activities are not to be construed as part of the project costs under the Commercial Rehabilitation Loan program:

1. Management fees
2. Financing costs and fees
3. Franchise fees
4. Debt consolidation
5. Moving costs
6. Working capital
7. Refinancing prior obligations



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VII. Participants and Structure of Project Financing

The City of Pine City EDA Commercial Rehabilitation Loan program is designed to foster projects contributing to sound economic growth in Pine City in such a way that maximum private sector exposure is stimulated and encouraged. The City of Pine City EDA Commercial Rehabilitation Loan program should not be a substitute for conventional business financing or be used in place of other specialized state, federal or local programs that may be better suited to the specific project needs.

VIII. Private Sector Lender

Financing may be provided by regulated and/or non-regulated financial institution or non-institutional source, if they are in the business of providing financing for commercial purposes, and they are not associated with the small business concern receiving financial assistance. The terms and conditions of such financing must be acceptable to the City of Pine City EDA, and based on the small business' ability to repay the City of Pine City EDA Commercial Rehabilitation Loan.

IX. Interest Rate

The interest rate for the Commercial Rehabilitation Loan will be set at prime minus 3.5% with a minimum of 2%, fixed rate plus any fees set by the City of Pine City's fee schedule.

X. Payment

As part of the lending process, the City of Pine City EDA will work with the borrower to determine whether the amortization schedule will be set up with a balloon or balanced payments. There will be no penalty for early repayment.

XI. Term

The term of the loan cannot exceed five (5) years or the term of the loan provided by the private lender, if applicable. The maximum amount available per property is \$8,000.

XII. Conflict of Interest/Self-Dealing

Self-dealing by the EDA, its Board of Directors, employees or any other related parties to the prejudice of the small business concern, or the EDA is prohibited. The EDA shall not permit a significant relationship to exist or to be created between the EDA and a small business concern to be assisted while assistance through the City of Pine City Commercial Rehabilitation Loan program is outstanding.

XIII. Repayment Ability



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The Commercial Rehabilitation Loan must be secured so as to reasonably assure repayment. Reasonable assurance of repayment takes into consideration earnings, management ability and financial condition of the borrower as well as the value of collateral and credit history.

XIV. Loan Application Processing

The intake of loan applications will be completed by the staff of the City of Pine City. Upon receipt of a complete application, the staff and the EDA subcommittee will complete the due diligence with an initial review to determine the ability of the program to address the identified financing need. If the project meets the intent and general parameters of the program and is approved by the EDA Board of Commissioners the Board will make a recommendation to the City Council who will hold a public hearing and will make the final decision on the EDA loan request. The public hearing may be held by the EDA prior to making the recommendation to the City Council. At the time of the scheduled public hearing, City staff or the City's agent will make a final recommendation to the City Council and EDA regarding this application.

The cost of any required consulting services shall be the responsibility of the applicant and shall be paid for out of an escrow account established at the time of application submission. Escrow amounts shall be determined by the City Administrator or their designee.

1. Credit Information and Credit Reports.

Upon receipt of the loan application, a credit report will be ordered from the private lender participating in the project. The report will be provided to the loan review committee established by City of Pine City EDA if the lender receives permission from the borrower. If the application package includes an acceptable credit report or sufficient credit information is supplied by the small business concern/lender or is available from other sources a new credit report may not be needed. Letters should be written by the private lender to credit references and others where necessary, to determine the applicant's credit standing.

2. Credit Requirement.

The applicant must meet certain practical credit requirements including the following:

- a) The applicant must demonstrate credit worthiness as determined by the private lender and the City of Pine City EDA.
- b) There must be evidence that management has the ability to operate the business successfully.



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- c) The applicant must have enough capital in the business so that with the assistance through the City of Pine City EDA Commercial Rehabilitation Loan Fund, it will be possible for the business to operate on a sound financial basis.

While the questions of security and collateral are important in determining whether financial assistance will be extended, they are not the only factors upon which the approval or rejection of an application is determined. The City of Pine City EDA attaches great importance to management, the inherent soundness of the small business concern, the small business concern's earnings records and prospects, the small business concern's long-range possibilities for successful operation and whether the granting of financial assistance will increase employment or have other favorable effects on the economy of the City of Pine City.

3. Financial Statement Requirements.

The loan officer of the private lender must evaluate the reliability of the financial statement submitted. All statements must be signed and dated by the proprietor, a partner, or an authorized officer of the applicant, unless they are accompanied by an independent accountant's report. Statements submitted on a compilation basis must be signed by the small business concern, owner, or designated officer.

4. Business Financial Statements.

Balance sheets, profit and loss statements, and statement of change in financial position are normally required for the preceding two (2) full years. In addition, an interim statement for the current period is required when the applications is received more than ninety (90) days after the end of the last fiscal year. An aging of accounts receivable and payables should accompany the interim balance sheet.

5. Cost Estimates.

For businesses seeking financing for commercial rehabilitation purposes, City of Pine City EDA requires the applicant supply a cost estimates from qualified, licensed contractors, as applicable.

XV. Additional Loan Requirements

Upon loan approval, the loan applicant shall enter a business subsidy agreement for at least five (5) years from the benefit date in accordance with the City's business subsidy policy. The applicant must further commit to remain in the site for which the business subsidy agreement was granted for at least five (5) years. In the event that the loan recipient fails within two (2) years of the benefit date, as defined in



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Minnesota Statutes, Sections 116J.993-116J.995 as amended, to continue operations in the City of Pine City, the recipient or its successors and assigns shall be liable to repay to the City the assistance plus interest. The City may prorate repayment to reflect partial fulfillment of the goals set forth in the business subsidy agreement. The rate of interest charged must be set at no less than the implicit price deflator for government consumption expenditures and gross investment for local governments prepared by the Bureau of Economic Analysis of the United States Department of Commerce. The City may, after holding a public hearing, extend the time for compliance with the business subsidy agreement by up to one (1) year.

XVI. Loan Servicing

There are two (2) options for loan servicing. The EDA may elect to have loans serviced by lenders participating in the financing for any project or service the loan internally.

The EDA will provide written instructions to the servicer outlining the services that need to be provided as a part of the servicing contract. In addition, the servicer will not, without prior written authorization of the City of Pine City EDA, authorize any actions regarding the EDA loan including:

1. Make or consent to any substantial alteration in the terms of the loan instrument.
2. Make or consent to release of collateral.
3. Accelerate the maturity of the note.
4. Sue upon the loan instrument.
5. Waive any claim against the borrower, guarantor, obligor, or stand-by creditor arising out of the loan instrument.
6. Directly or indirectly charge or receive a bonus, fee, commission or other payment of benefit in connection with the making and servicing of the loan except as authorized by the program.
7. Require or obtain any funds, certificates of deposit or compensating balance not under the unrestricted control of the small business concern or any other agreement establishing any preference in favor of the lender.

XVII. Repayment

The servicer is required to insure the timely forwarding of the small business concern's monthly payment to the City of Pine City EDA Commercial Rehabilitation Loan Fund.