

Randolph Small Business Revolving Loan Fund Policies and Procedures

April 2004

A. Loan Committee Structure

1. Membership

The Loan Committee shall be composed of five members. These members shall be appointed annually by the Randolph Board of Selectmen.

2. Chairperson and Other Officers

The Chairperson of the Loan Committee shall be appointed by the Randolph Board of Selectmen.

The Loan Committee may appoint a Vice-Chairperson to act in the absence of the Chairperson.

3. Authority

The Loan Committee will review all applications to the Randolph Small Business Revolving Loan Fund (SBRLF), and within these policies, recommend approved loans to the Randolph Board of Selectmen for funding.

The Randolph Board of Selectmen will make final funding decisions on all loans upon receiving a recommendation to fund from the Loan Committee. A loan may only result from a written application approved by the Loan Committee.

4. Voting

Applications for loans shall be approved by at least a majority of the members of the Loan Committee, except that in no case may such application be approved by fewer than three affirmative votes.

5. Quorum

A quorum of the Loan Committee shall be at least three members.

6. Reports

All actions of the Loan Committee shall be reported to the Randolph Board of Selectmen at the next regularly scheduled Board of Selectmen's meeting following a Loan Committee action.

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7. Review

The Randolph Board of Selectmen shall review these policies at least annually, and make changes as needed to meet Randolph's needs.

B. Revolving Loan Fund

1. Purpose and Objectives

The Randolph Small Business Revolving Loan Fund is established for the following purposes and objectives:

- To recruit new businesses to Randolph, especially those that increase the diversity and availability of goods and services;
- To retain existing Randolph area businesses;
- To repair existing buildings, especially to bring them up to current building safety and accessibility codes;
- To expand existing area businesses.

If there is a question whether a project qualifies for a Revolving Loan Fund loan, the Loan Committee will seek an opinion from the Board of Selectmen before considering an application for a loan.

2. Borrower Eligibility

Any business, new or existing, that operates or will operate in Randolph is eligible to apply to the SBRLF. Business established 'for profit' and 'not for profit' are equally eligible. Loans will be available to be used only for that portion of a business that is physically located in Randolph.

The applicant must demonstrate to the Loan Committee's satisfaction a commitment and intent to repay the loan, and an ability to repay the loan.

The borrower must be current in all tax payments at all levels, including any fees to be assessed by the municipality, or be current in an approved plan to pay taxes or fees.

3. Eligible Activities

The SBRLF may not be used to pay non-business expenses. The Revolving Loan Fund may be used for any other legitimate business need.

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Eligible uses of the SBRLF include property purchase; construction and rehabilitation; equipment and other machinery purchase, inventory and working capital. All proposed projects must be in compliance with applicable municipal and state codes and zoning.

4. Other Funding

The Revolving Loan Fund is designed to be the 'glue' that makes the business financing come together. The Loan Committee and RACDC staff anticipate that most funding requests will be made in conjunction with other funding sources, such as a bank loan and/or personal equity.

5. Security

Security for loans will be determined by the Loan Committee on a case by case basis. Every loan will be collateralized. Each loan will be personally guaranteed by the borrower. Holders of 20% or more of the stock in a corporation are required to personally guaranty a loan made to the corporation.

6. Interest Rate

The interest rate is based on 60% of Wall Street Journal Prime Rate of Interest and is set by the Selectboard. This interest rate will be fixed for the term of the loan, except that the Loan Committee may recommend changes in the rate as part of a proposal for forbearance (See section D.4. below)

7. Types and Terms of Loans

Loan requests of up to \$20,000, per borrower, (for one or more loans) will normally be considered by the SBRLF Committee. Loans for larger amounts may be considered but will be subject to additional documentation and collateral requirements.

Loans will be repayable in five years or less. Loans may carry amortization schedules greater than five years, but all outstanding loan balances must be repaid in five years.

8. Fund Administration

The Randolph Small Business Revolving Loan Fund (SBRLF) is administered for the Town by Randolph Area Community Development Corporation (RACDC). The fund balances and loan payment processing are managed by the Town Treasurer.

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C. Loan Application Procedures

1. Loan Application

Loan applications will be made through the administrator of the program, the Randolph Area Community Development Corporation.

Each loan application must be accompanied by a non-refundable fee of 1/2 of 1% of the loan request amount. This fee helps defray the costs of application processing. A minimum fee of \$25.00 is required. There is also a documentation fee of \$200.00 for each approved loan.

Loan requests must be made in a written application. The following is required to be included in each application:

a. Application Form: The Application Form will be provided by the Administrator, and completed in its entirety by the applicant, including a signed authorization for the Administrator to perform credit investigation.

b. Personal Financial Statement to be completed on a form provided by the Administrator, for each owner and corporate shareholders owning 20% or more of the corporation stock.

c. Written Business Plan: At a minimum, the business plan will include a written description of:

- Short and long term goals of the business;
- Business history;
- A description of the business environment (size and character of market, major competitors, major customers, major suppliers, uniqueness of product or service, special skills and capabilities of borrower);
- Marketing plan;
- Operational plan;
- Management plan, including resumes of key personnel;

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- Financial information, including three year prior tax returns (if available), and three-year cash flow, income and balance sheet. The first year of cash flow projections will be provided on a month-to-month basis;
- d. Statement of Uses of Funds, including list and other description of all equipment, land, buildings and other assets to be purchased in the project;
- e. Statement of Sources of Funds, detailing all sources of funds for the project (including the loan request), and including commitment letters for funds other than RLF funds;
- f. List and value of collateral to be provided.

2. Loan Application Decisions

All applications will be reviewed and considered by the Loan Committee on a case-by-case basis. No application will be considered unless it is deemed complete by the Loan Committee.

A positive recommendation will be forwarded to the Randolph Board of Selectmen for final approval. The Select Board denial of a recommendation is final. If the Loan Committee does not make a positive recommendation, the Loan Committee will send a letter to the applicant explaining the reasons for the denial, and suggesting conditions under which the application would be reconsidered.

A letter of approval, indicating the approved amount, terms, collateral required, and other conditions, will be sent to the applicant within five working days of Select Board approval. If the Select Board does not approve a loan, a letter of denial will be sent within five working days, explaining the reasons for denial.

3. Loan Closing

The Town may contract for the closing of loans. The loan applicant will pay all costs of closing. In order for a loan to be closed, all conditions contained in the Loan Approval letter must be satisfied. The documentation fee referenced in C-1 is applied to cover loan closing costs.

4. Standard Conditions

Standard Documentation required for each loan closing will include:

- Promissory note;
- Security Agreements (including mortgages and UCC financing statements);

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- Guarantees;
- Proof of insurance as outlined below.

Each borrower is required to submit a statement of actual revenues and expenses compared to projections at least semi-annually, commencing on the 6-month anniversary of the loan.

5. Loan Payment

Loan payments will be made payable to the Town of Randolph. Instructions on where and when payments should be made will be given to the borrower at loan closing.

6. Insurance

The following insurance will be required:

- a. Evidence of homeowners or property fire insurance sufficient to cover the amount of all mortgages and loans, including the SBRLF, with evidence of the Town designated as loss-payee.
- b. Flood Hazard Insurance will be required for all loans made for improvements or business activities in properties within the standard intermediate flood plain (100 year flood plain), at least in the amount of all debt.
- c. Casualty Insurance and Credit Life Insurance may be required if the Loan Committee if deemed appropriate.
- d. Business Liability Insurance will be carried by all recipients of SBRLF funds.
- e. Workers Compensation shall be paid for all employees of any business receiving SBRLF funds.
- f. Other insurance as may be deemed appropriate and necessary by the Loan Committee.

D. Loan Servicing

1. General Procedures

Loan payments shall normally be due every month. A late charge of 5% of the payment amount shall be assessed for any payment received late by 10 days or more. Loans may be pre-paid at any time without penalty. Randolph Area Community Development Corporation is authorized by the Town to pursue the collection of payments due the Town.

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2. Delinquent Accounts

A loan shall be considered delinquent and collection procedures instituted by the Town for any loan delinquent for 30 days or more.

3. Acceleration

The Town will protect the fund by proceeding with lawful acceleration under the terms of its note and security agreement, and transfer of collateral in the event of non-payment of the loan or other defaults. The Loan Committee, by majority vote, will decide upon acceleration or liquidation.

4. Forbearance

Recasting of loans shall be considered at the borrower's request when the borrower's financial situation has changed significantly since the closing of the loan. The decision upon any method of forbearance must be recommended by the Loan Committee to the Board of Selectmen, who will consider and act on each request.

5. Non-discrimination

In accordance with the provisions of the Equal Credit Opportunity Act and Vermont law, the SBRLF may not discriminate in its lending practices on the basis of race, color, religion, sex, national origin, age, marital status, sexual preference, physical or mental handicap.

6. Confidentiality

All Loan Committee meetings to consider loan requests shall be held in Executive Session. Consideration of Loan Committee recommendations by the Randolph Board of Selectmen will be held in Executive Session.

Confidential business information received by RACDC, the Loan Committee or the Randolph Board of Selectmen in relation to loan applications and loan review shall not be released to anyone except by written authorization of the borrower.

The name of the loan recipient (individual or business entity), the loan amount and interest rate are public information and are recorded in the minutes of the Randolph Board of Selectmen. The Town reports on the status of each loan – original loan amount, unpaid balance, interest rate, and payment status - annually in the Town Report.

The Town may, as necessary, issue aggregate loan fund activity reports, including information such as average interest rate and terms of loans, kinds of businesses assisted, number of jobs created, average size of business and other information related to the SBRLF as a whole.

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E. Government Programs

1. Adherence to Government Regulations

The SBRLF shall adhere to all applicable government regulations governing the use of the fund.

F. Appeals

1. When Applicant Disagrees

When an applicant disagrees with a decision of the Randolph Small Business Revolving Loan Fund Committee, the following procedures shall be followed:

- a. The applicant shall contact the Chair to resubmit an application, which responds to the reasons for denial of the first application.
- b. Upon re-submittal, the Randolph Small Business Revolving Loan Fund Committee will meet to hear the re-submitted proposal as the first order of business at its next regularly scheduled Committee meeting.
- c. The decision of the Committee (whether for approval or denial of the loan request) will be reported in writing to the Randolph Board of Selectmen. The Board of Selectmen will take action at that time. The decision of the Randolph Board of Selectmen is final.

G. Conflict of Interest

Members of the Randolph Small Business Revolving Loan Fund Committee, the Randolph Board of Selectmen, and the staff of the Randolph Area Community Development Corporation shall be ineligible to apply for revolving loan funds as long as they are members.

Members of the Loan Committee and the Board of Selectmen are required to proactively reveal any conflict of interest that may exist in regard to particular loan applications. Members having such a conflict will take no part in discussion nor will they vote on that particular application. Conflicts of interest will be recorded in the minutes of the Loan Committee and the Board of Selectmen.

H. Amendments

Amendments may be proposed at any time by the Loan Committee, and recommended by a majority vote to the Randolph Board of Selectmen for approval. Amendments will be approved by a majority of the Randolph Board of Selectmen. Such amendments will affect all applications made after the date of the amendment.