

**CITY OF VERGENNES, VERMONT
VERGENNES REVOLVING LOAN FUND
POLICIES AND PROCEDURES**

Section 1, Introduction and Purpose

The City shall use Program Income generated under Grant Agreement 0020/95CA(18), loan repayments from the so-called Maynard Building Project, to establish the Vergennes Revolving Loan Fund (VRLF) for the purpose of funding community development activities in the City of Vergennes. Specific uses of funds may include, but not be limited to, the implementation, management and administration of loan activities involving affordable housing, small business development, and infrastructure improvements to support community and economic development. Primary beneficiaries will continue to be low and moderate income residents of the City of Vergennes.

Statement of Goals:

- A. Promote commercial enterprises that are consistent with the size and character of Vergennes by:
 - 1. Assisting existing small businesses.
 - 2. Providing incentives for the creation of new business development
 - 3. Assisting in the promotion of local businesses.
 - 4. Creating and protecting local employment opportunities.
 - 5. Attracting public and private investment for business development.
 - 6. Encouraging the sustainable use of local, renewable raw materials.
 - 7. Encourage businesses that have low environmental and health impacts.

- B. Encourage projects that will preserve and enhance the quality of life in Vergennes while maintaining our rural character, such as:
 - 1. Preservation and reuse of historic and important buildings.
 - 2. Enhancement of recreational opportunities.
 - 3. Protect and enhance the environment and mitigate pollution.
 - 4. Land conservation.

- C. Promote the health, safety, livability, and affordability of housing occupied by low and moderate income residents of Vergennes, while improving the physical quality of our neighborhoods.

- D. Preserve the fund to be able to meet the future needs of the community.

Section 2, Management Plan

The City Council shall appoint the Vergennes Revolving Loan Fund Committee (VRLFC), which will provide oversight of the program and determine uses of the Program Income. Administrative and management tasks performed by third parties shall be pursuant to a written contract approved by the City Council, or the Council's duly authorized agent. General Operating Procedures and Eligibility requirements shall be defined in the Policies and Procedures as developed by the VRLFC and approved by the City Council. The City shall provide a copy of the adopted Policies and Procedures and any amendments or revisions to the Agency of Commerce and Community Development.

A. The Committee---The VRLFC shall be a seven (7) member committee appointed by the City Council with the following composition:

- A banker
- A real estate agent/broker
- A member of the City Council
- The City Treasurer
- A representative from the Vergennes Partnership
- A business or commercial property owner
- A citizen at-large

Appointees preferably shall be residents of Vergennes, but may be non-residents if a particular expertise is needed or a person has property or business holdings in Vergennes sufficient to be a stakeholder in the wellbeing of the community. The City Treasurer shall be a voting ex-officio member. The City Council member shall have a term concurrent with the Council Member's term of office, unless removed by the City Council. All others Committee members shall have a two (2) year term, unless removed by the City Council.

The Committee officers shall be a Chair, Vice-Chair, and Secretary who shall be elected annually by the committee. A quorum shall consist of a majority the committee (4). Decisions of the Committee shall be made by vote of the majority of the committee (4).

B. Committee and Member Responsibilities--- The responsibilities of the VRLFC include:

1. To consider and act upon each loan request that comes before the Committee.
2. Consider and act upon any borrower requests for changes to loan terms and rates.
3. To attend all meetings of the Committee and when unable to attend, notify the Chair as soon as possible.
4. Adhere to and uphold confidentiality and conflict of interest policies.

5. To perform monitoring oversight of the portfolio of loans.

Section 3, Business Loans

A. Purpose---Business Loans provide start-up and growing businesses that may have difficulty obtaining adequate financing from a financial intermediary with flexible and affordable financing. Loan proceeds must be used for working capital, real estate acquisition and/or improvement, inventory, machinery and equipment, and start-up expenses. Refinancing of existing debt is allowed when the refinance will have a significant impact on reducing the debt service of the business and enhancing the viability of the business.

B. Loan Size---There is no minimum size of loan. The VRLF will lend a maximum of one half (1/2) the fund balance to a Borrower. Loans will be based upon the need of the Borrower; therefore, the Committee may waive the loan limit when in its discretion the loan is in the best interest of the area served, the VRLF, and the Borrower.

Generally, no more than one active loan will be made to a business. This policy does not preclude rewriting a loan to accommodate new or imposed changes experienced by a Borrower. Multiple loans may be made at the Committee's discretion, when it is in the best interest of the area served, the VRLF, and has a positive impact on employment.

C. Loan Features---Loans will be designed based upon the need of the Borrower, and can include fully amortizing loans of up to 10 years; fully amortizing loans with a balloon provision; or term loans not to exceed one year. No prepayment penalties shall apply. Loans should generally not exceed the useful life of the collateral.

D. Disbursements---Loan proceeds are escrowed, disbursed to third party entities, or distributed in such fashion as the Committee determines is in the best interest of the VRLF and the Borrower. Specifically, the portions of a loan made available for working capital may require presentation of documentation for the obligation of funds prior to disbursement. A minimum obligation of five hundred dollars (\$500.00) prior to disbursement of funds is required. Documentation may include purchase orders, business receipts, invoices, or monthly financial statements.

E. Repayments---Most loans will be fully amortized with monthly payments of principal and interest. In some cases, for start-ups or young businesses, the Borrower may be allowed to pay interest only for the first three (3) months (possibly up to the first six months, if the quality of the collateral and/ or guarantee warrant a longer period).

F. Form of Payment---The Committee may agree to a form of payment whereby the Borrower's loan payments are adjusted as additional principal disbursements are made based upon the new principal balance outstanding.

G. Technical Assistance---In an effort to encourage and promote the success of a business, both pre-loan and post-loan technical assistance are strongly recommended, or may be required as a condition of the loan.

H. Eligibility---The applicant business is any private corporation, partnership, cooperative, or proprietorship which is classified as a small business by the US Small Business Administration (classified by SIC code by number of employees or amount of annual receipts defined in the April 7, 1994 Federal Register, pp. 16513-37). Non-profit corporations are also considered eligible for VRLF funds.

Businesses relocating out of Vermont are not eligible. Loans are available to eligible and qualified owners of businesses located within the City of Vergennes, irrespective of the residence of the owner(s).

With the exception of lending institutions, gambling institutions, and sexually oriented adult businesses, no particular type of business is excluded from financing under these policies.

Businesses must have an acceptable business plan and have demonstrated access to and use of appropriate technical assistance.

The following additional eligibility requirements must be met by applicants to be considered for financing from the VRLF:

1. The proposed or existing business operates with the necessary municipal, state, and federal permits; and
2. The business has a history of compliance with regulations and permits; and
3. The business can demonstrate site control; and
4. The business is compatible with the Municipal Development Plan; and
5. The business and the entrepreneur are in good standing with respect to, or in full compliance with a plan to pay, any and all federal, state, and local taxes and are current on any student loans to the government; and
6. The business does not place unusually high demands on municipal services; and
7. Its principals have not been convicted of a felony within the past three (3) years.

Section 4, Fee and Interest Rate Schedule

The Committee may charge fees to cover processing costs, to assure the

continuation of the fund and to indicate the seriousness of the process. The Committee has the discretion, in the event of a partnership with another lender, to set terms comparable with the other lender on a case by case basis when it is in the best interest of the business and the VRLF.

A. Fees---In all cases, the payment of fees below shall be made directly to the VRLF. These fees will be due and payable at closing and under special circumstances may be financed as part of the loan. A detailed breakdown of such costs will be provided by the City of Vergennes to the Borrower.

1. Application Fee---A non-refundable application fee of twenty five dollars (\$25.00) paid at the time of loan application to the City of Vergennes
2. Processing Fees for Refinances and Note Modifications---Borrowers that are refinancing their loans (regardless of whether they are requesting additional dollars) must pay a \$25.00 processing fee. Borrowers that have a note modification must also pay a \$25.00 processing fee.
3. Legal and Loan Closing Fees---The Borrower will be responsible for all applicable legal and loan closing fees, including but not limited to fees associated with any appraisals or legal opinions as required by the Committee for loan approval.
4. A loan origination fee will be due to VRLF set at 1% of the loan request due at time of closing.
5. Late Fees and NSF Fees---The City of Vergennes will pass on to the Borrower any fees or charges incurred by the bank as a result of checks not honored or returned insufficient funds (NSF). In addition, if a payment is returned for insufficient funds, the City of Vergennes will charge the Borrower an NSF fee of twenty five dollars (\$25.00), due and payable when a new check is presented for payment. Payments which are more than fifteen (15) days late will be charged a late fee equal to Five percent (5%) of the unpaid portion of the Borrower's regularly scheduled payment. The Borrower will be responsible for paying all late fees and service charges associated with their loan.
6. Legal Fees Associated with Default---The Borrower will be responsible for all costs associated with default of the loan, including collection costs, attorney fees, etc.
7. Interest Rates---The interest rate of business loans will be fixed for the term of the loan at closing based upon the Wall Street Journal Prime Rate minus two, but no lower than 4%.

B. Loan Application and Review Process

1. Handling of Inquiries---A pre-application inquiry to the City Manager will initiate the application process. The purpose of the initial inquiry is to screen eligibility; to consider the nature, purpose; amount, and type of loan being considered, and to identify the principals involved. The City Manager will describe the application process.
2. Municipal Compatibility---The applicant will be advised by the City Manager about local permit requirements (Zoning Administrator as to permits), availability of municipal services, availability of local revolving loan fund monies, and review of compatibility between the business and the Municipal Development Plan.
3. Business Planning Assistance---The applicant will be referred to technical assistance resources for assistance in the preparation of a business plan if one has not already been prepared.
4. Application Processing---Applications will be accompanied by one unbound copy of a detailed business plan. The applicant will be forewarned that the application package must be complete before it will be reviewed by the Revolving Loan Fund Committee. The City Manager will review the information provided and shall notify the applicant within five (5) days if any additional information is needed.
5. Application Underwriting---Complete applications will be moved forward for further review and credit analysis.
6. Committee Review---Prior to the next scheduled meeting of the Committee, a prepared summary and recommendation will be sent to the Committee members for their review. The Committee members will be afforded access to the entire application file, before and/ or during the meeting.
7. Committee Meetings---The loan package will be considered at a meeting of the Committee with or without the presence of the applicant. The applicant will be given an opportunity to present to the Committee additional information, answer questions, and respond to concerns or constructive feedback.
8. Notification of Decision---The applicant will be notified via telephone within five (5) business days of the Committee's recommendation to the City Council, and in writing thereafter. If the loan is denied, the applicant will be notified as to the reasons why the loan has been denied. Loan decisions of the Revolving Loan Fund Committee must be approved by the Vergennes City Council.

C. Terms and Conditions---The Committee may impose terms and conditions on the making of any loan consistent with the Vergennes Revolving

Loan Fund Loan Policies and Procedures. Prior to closing, the City of Vergennes shall send a letter of commitment which shall detail closing requirements and other terms and conditions. All applicable municipal, state, and federal permits must be obtained prior to the loan closing. Once the Borrower has met all conditions, delivered security instruments, and executed all documents required, funds will be disbursed.

D. Collateral and Security Instruments---All loans will require a lien against the business. This includes a security interest to the extent deemed necessary, in business assets including machinery, equipment, inventory, contract rights, including; securities, trade names, accounts receivable, and insurance policies now held or hereafter acquired. In addition, all furnishings or fixtures acquired from whatever source and affixed to real estate occupied by Borrower at the business location may be used. The VRLF will perfect a first security interest whenever possible, but will take a subordinate security interest when necessary to complete a deal.

All loans will be secured in the name of the City of Vergennes, upon default the unpaid portion of the loan shall become due and payable, unless a work out plan can be achieved. Collateral means a security position. Such security instruments include; mortgages, promissory notes, UCC-1 Statements, etc. The City may also obtain a lease/purchase option to secure the loan.

Local lending considerations will dictate the form and substance of other security requirements. These may include, but are not limited to, personal guarantees, co-signers, assignment of subordination lease rights, cross collateralization of machinery, equipment, and other assets, lease purchase agreements, security interest in outside assets of Borrower and corporate guarantees. In addition to collateral, consideration will be given to personal character.

E. Insurance---All Borrowers are required to obtain, pay for and keep in full force, for a period beginning with the execution of the loan documents and continuing for at least the term of the loan, insurance on the business and collateral, against such risks and in such amounts, and with an insurance carrier as may be reasonably acceptable to the Committee. Borrowers operating a home-based business and approved for a total financing package of \$5,000 or less and with insurable business assets worth \$5,000 or less shall be exempt from the requirement to obtain business personal property Insurance, until such time as the value of their business assets increases and/ or borrowings increase over \$5,000, whichever occurs first.

The insurance policy(ies) shall contain a lender loss payee clause in the name of the City of Vergennes and when applicable a mortgagee clause in the name of the City of Vergennes. Borrowers shall submit evidence of insurance to the City of Vergennes. At the discretion of City, Borrower may be required to have a policy for title insurance in no less than the sum of the full amount of the loan and the amounts of all mortgages, liens, and other encumbrances having a higher priority than the VRLF loan.

F. Compliance, Permits and Licenses---At a minimum, Borrowers are required to

provide documentation to certify that, as of the date of execution of each Loan Document, all permits needed for the project have been identified and those needed to commence activity have been secured; Borrower has authority to do business in the State of Vermont; Borrower is in full compliance to pay or is current on any and all debt financing; Borrower is in good standing with respect to, or in full compliance with a plan to pay, any and all federal, state, and local taxes, to the extent Borrower is subject to taxation; and, Borrower has no liens, judgments, or other encumbrances, other than those disclosed to the Committee during the application process, or disclosed no later than at the execution of the loan documents.

Borrower Record Keeping and Reporting---Borrower shall submit financial reports or the most current tax return to the City of Vergennes annually on or before August 15th following the first full year of the loan. The City shall have access to the records of the Borrower during normal business hours or as arranged in advance. Borrower's failure to provide such information as required within the designated time period and or the provision of information that appears to be inaccurate or incomplete, unless remedied within fifteen (15) days, shall constitute an event of default.

Borrowers shall document employment and other data as required by City of Vergennes, including but not limited to, the number of jobs created and retained; the number of employees full and part time; earnings per hour; cost per job; incremental tax return; net sales increase (or increase in profits); increases in assets; change in education status; length of time in business; and changes in the above over time. Borrower shall provide said data to the City of Vergennes as requested, but not more frequently than annually.

Applicants must guarantee that they will not discriminate on the basis of sex, age, national origin or ethnic heritage, race, sexual orientation, religion, income, disability, or familial status in hiring or otherwise conducting business.

All applicants must comply with federal, state, and local rules and regulations pertaining to their business and the VRLF funding sources.