

**CITY OF FREEMAN  
REVOLVING LOAN FUND  
OPERATING PLAN**

**January 2005**

## **I. Program Elements of the Plan**

### **A. Goals and Objectives**

The goal of the City of Freeman (City) Revolving Loan Fund (RLF) is to assist the growth and development of business and industry in Freeman. Within this general framework, the RLF will pursue a number of specific objectives:

1. Provide affordable capital for the retention, expansion, and creation of business and industry;
2. Create job opportunities and additional income for local residents;
3. Reduce private lenders' risk on business loans; and
4. Leverage other private and public funds for business and industrial development projects.

Other objectives may be adopted in response to changes in local needs and economic conditions. Future revisions to the goals and objectives of the RLF shall be approved by the Freeman City Council.

### **B. Identification of Area's Financing Needs**

Most of the economic activity in Freeman is based on agriculture. The local capital market is dominated by agriculture-related loans which restrict the amount of financing available for other business and industrial activity. Limited dollars force local banks to target business loans that involve minimum risk and exposure.

Bank deposits have acquired shorter maturities which create additional risk on long-term loans. Interest rates have come down significantly since the mid-1980's but interest expense is still prohibitive for many borrowers. Most business expansions or new business start-ups require some form of long-term financing at affordable rates. Money simply costs too much for local entrepreneurs to make a reasonable profit from new business ventures.

The availability and cost of business capital have restricted the diversification of Freeman's economy. Job opportunities are limited. Providing additional capital to reduce the risk of a loan package may influence private lenders to participate in more business and industrial projects. Reducing the interest rate on a portion of a loan package will make interest expense more affordable. These actions should help retain and expand business and industry, create new job opportunities, and increase the income levels of local residents.

### **C. Targeting Criteria**

The limited dollars available to the RLF necessitate the targeting of loans. Loans will only be made to individuals or companies located in or expanding into the City of Freeman. Other targeting criteria include:

1. applicant's business must be for-profit; and
2. projects must represent the retention and expansion of existing businesses or the creation of new businesses.

New targeting criteria may be adopted or existing targeting criteria may be modified as local needs change. Revisions to the RLF's targeting criteria shall be approved by the Freeman City Council.

#### **D. Standards for RLF**

As a general rule and guideline, the following standards will apply. The City will maintain certain standards for the RLF. The following standards will be applied to the overall loan portfolio:

1. a minimum of 50% private participation will be required on each loan;
2. RLF assistance will not exceed \$20,000 per each job created, with \$10,000 per job as the RLF's goal;
3. the overall portfolio will attempt to leverage \$2 private to \$1 public;
4. loan funds are to be used for land, buildings, equipment, and working capital;
5. coordination with other funding sources will be maintained and assistance will be provided to each applicant to obtain the most beneficial financing package; and
6. loans that create jobs for low and moderate income people and the unemployed will be highly encouraged.

Portfolio standards will allow the City flexibility in meeting the needs of individual borrowers while minimizing the impact of RLF assistance. For example, although the portfolio will have an overall leverage ratio of \$2 private to \$1 public (66% vs. 33%), certain projects may justify 50% RLF participation. Standards for the RLF may be modified or changed at the discretion of the Freeman City Council.

#### **E. Financing Policies**

As a general rule and guideline, the following policies will apply:

1. No more than 75% of the RLF's funds may be loaned to any single borrower.
2. The City will not process a loan request for less than \$10,000, except in special circumstances, such as participating in a South Dakota Micro Loan Program package. The cost of reviewing applications and closing and servicing loans is prohibitive for projects requiring less than the minimum loan amount.
3. Loans will not exceed \$20,000 for each job created, with \$10,000 per job as the RLF goal.
4. Repayment terms will be negotiated with each borrower. Loans will generally be set up on a monthly principal and interest repayment schedule, but special circumstances may warrant more flexible terms, including quarterly payments and

a delay in repayment of principal and/or interest. “Balloon” payments may also be required in some cases.

5. Interest rates will be a negotiable item. The loan approval committee will have the ability to set options and rates and will generate an updated rate sheet every ninety (90) days. Flexibility would be utilized by the committee to determine the most appropriate financing package for all of the parties involved. The loan approval committee would have the option to use fixed interest rates as well as a variable interest rate.
6. The term of any loan will not exceed fifteen (15) years. Certain types of loans may require shorter repayment periods.
7. The RLF may take a subordinate position to other lenders. A subordinate position may be acceptable in most cases. RLF loans will be secured by all available assets.
8. The restructuring of a loan will be a decision of the RLF Loan Approval Committee. The restructuring terms must be beneficial for both the RLF and the borrower.
9. All RLF borrowers will be required to maintain adequate insurance coverage. Evidence of insurance coverage will be required and the borrower shall list the Corporation as a beneficiary on all applicable insurance policies.
10. All RLF borrowers will be required to keep federal income, sales, property, and other taxes and tax liabilities current.
11. Successful loan applicants will be required to provide the RLF with acceptable documentation on the use of loan proceeds prior to the closing of any loan. The determination of “acceptable documentation” will be made on a case-by-case basis by the RLF Loan Approval Committee.
12. As a general rule, personal guarantees will be required from all borrowers that are entities.
13. Interest earned on RLF loans will be used to supplement the fund and to cover administrative costs. A minimum loan fee of \$200, paid in advance by the borrower, shall be required on all loans and dedicated to legal, accounting, and other costs associated with the review, approval, and closing of loans.
14. All applicants will receive prompt assistance on loan requests. It is the intent of the City to act on all loan applications within thirty (30) days after submission. This schedule may vary depending on actions taken by other funding sources.
15. Efforts will be made to coordinate all loan activities with existing programs and services. Linkages with state and federal agencies involved in business development programs will be encouraged. Some of these agencies would include, but are not limited to:
  - Small Business Development Center
  - Small Business Administration
  - Areawide Business Council
  - USDA Rural Development

- SCORE
- Governor's Office of Economic Development
- South Dakota Job Service
- South Dakota Rural Enterprise, Inc. (SDREI)

In major manufacturing operations, efforts will be made to coordinate employee recruitment with local Job Service offices. Individual circumstances will dictate the appropriate linkage on other types of projects.

## **II. Administrative Elements of the Plan**

### **A. Loan Review Board**

The Freeman City Council shall appoint a Loan Approval Committee to make recommendations on loan approvals. The City will appoint two (2) representatives from the City Council, one (1) representative from the Economic Development Corporation, and three (3) representatives from each of the financial institutions within the community. The financial institution that brings the loan to the Committee will not be eligible to vote regarding the loan approval.

A single majority of the Loan Approval Committee (three of five members) will be required to approve a loan.

### **B. Staff Capacity**

Planning & Development District III (District III) will provide staff services to assist the Committee in reviewing loan applications. Outside consultants will be retained as needed to assist the Committee in analyzing loan applications and managing the RLF.

### **C. Loan Selection and Approval Process**

Loan selection criteria are designed to select those applicants that will best fulfill the RLF's objectives and to screen out proposed projects that are unworkable. The criteria are divided into four categories: project types, financial qualifications, applicant's qualifications, and public benefit.

#### **1. Project Type**

Factors to be considered include, but are not limited to:

- a. project must be located in the City of Freeman;
- b. applicant business must be for-profit; and
- c. project must involve the expansion or retention of an existing business or the creation of a new business.

#### **2. Financial Qualifications**

This category includes the qualifications that an applicant must meet and the terms under which loans will be made. These criteria include:

- a. the applicant will be required to provide a minimum of ten percent (10%) of the project's total cost unless hardship can be demonstrated;

- b. applicants must be able to obtain non-RLF financing for the remainder of the project's total cost;
- c. loans will be limited to a maximum of fifteen (15) years;
- d. the interest rate on RLF loans shall be negotiated; and
- e. loans cannot exceed \$20,000 for each job created, with \$10,000 per job as the RLF goal.

### 3. Applicant's Qualifications

Certain characteristics of the manager or operator of the business will be considered in the loan selection process:

- a. A credit check will be made on the business, the business owner, or both. The credit check may include contacting the Credit Bureau, Register of Deeds, Secretary of State, and personal references.
- b. Information will be required on the owner/operator's past business history.
- c. Projected financial documents for the project will be required in the loan application to detail how money will be generated to repay the loan.
- d. This information must be prepared by or in cooperation with the financial institution or other private participant.

### 4. Public Benefit

This category includes information on the project's ability to generate the type of public benefit sought through the RLF. Information to be considered will include:

- a. number of jobs created;
- b. type of jobs created;
- c. quality of jobs created (the ability to provide jobs which will increase per capita income, that is, to reduce underemployment – will be given preference);
- d. number of jobs saved;
- e. number of jobs per dollar loaned;
- f. impact on the local tax base; and
- g. potential future business growth.

The decision on loan approval will be made by the Committee. All actions on individual loan requests will be based on information included in the loan application and supplemental information provided by other parties involved in the loan review process.

The following procedures will be followed in working with loan applicants.

During the first meeting with a prospective applicant, the RLF program will be reviewed and loan requirements will be explained by the financial institution or other private participant. If the applicant decides to apply for assistance, private financing must be available for the non-RLF share of project costs.

Once preliminary approval is received from a bank or other private lender, the applicant may submit a completed application form. The RLF Loan Approval Committee will then make a credit check and analyze the applicant's qualifications and financial statements. Affected agencies will be contacted for their reaction to the project. Potential problems will be identified. The Committee will review this information and make an initial loan decision. If the Committee requests additional information, the application will be returned to the applicant and re-evaluated when the additional information has been provided.

After the Committee approves a loan, the appropriate documents for the loan closing will be prepared. Legal assistance may be obtained to complete the loan closing. Loan payments will be made directly to the RLF, in care of the City. It will be the responsibility of the originating financial institution to collect all loan payments and apply proceeds to the appropriate entities based upon the participation agreement.

Planning & Development District III assistance may be sought by the Committee at any point in the decision making process. District III's involvement is solely at the discretion of the Committee and applicants will be instructed to cooperate with District III in its consulting capacity.

#### **D. Loan Servicing**

Loans made from the RLF will be serviced by the financial institution or other private participant. Loan servicing procedures shall include, but are not necessarily limited to the following:

1. All borrowers shall be required to submit financial statements at least annually. More frequent reporting requirements may be adopted on individual loans. Audited financial statements are preferred.
2. Borrowers may be required to submit copies of federal income tax returns and state unemployment insurance reports.
3. The City reserves the right to conduct on-site monitoring of loan projects in conjunction with any and/or all of the participating lenders.

Additional loan servicing procedures may be adopted at the discretion of the City, including the services of Planning & Development District III.

Administrative costs of the RLF will be funded through interest earned on loan projects. Additional interest income for administrative support may be generated from interest



earned on RLF funds in interest-bearing bank accounts. A minimum loan fee of \$200 will be paid by the borrower to help cover the cost of processing applications and closing loans. The fee will be based upon the amount of time and expense associated with the application

#### **E. Recapitalization Strategy**

The RLF is intended to be self-perpetuating. Once all funds have been loaned out, it will take time to replenish the RLF to the point where a significant amount of capital is available. Several small loans or one larger loan will probably be processed in the first years following the complete disbursement of the RLF's initial capitalization.

The City will constantly be looking for funding alternatives to further supplement the RLF. Donations from either individuals or organizations will be accepted and are tax deductible.

#### **F. Other Requirements**

No applicant may be denied a loan on the basis of national origin, sex, age, disability, political affiliation, marital status, veteran status, or any other basis prohibited by state or federal law.