

Johnson Revolving Loan Fund (JRLF) Guidance Document

In 2013, the Town of Johnson was awarded a \$509,000 grant from the Vermont Community Development Program. The Town used the grant to make a loan to Johnson's Sterling Market LLC to open a grocery store in downtown Johnson. The Town has returned half of the loan paybacks to the Vermont Community Development Program, as per the Closeout Agreement. The other half of the loan payments (approximately \$270,000.00) will capitalize Johnson's Revolving Loan Fund (JRLF).

Originally, the Johnson Selectboard intended to begin re-loaning the funds accumulated in the JRLF to Johnson residents and businesses in January 2017 when the expected amount of loan paybacks by the Sterling Market reached the amount of 7,500. In 2018, the entire loan was unexpectedly re-paid. As a result, this Loan Guidance Document is being revised with the goal of establishing a process and defined priorities for the JRLF.

JRLF Guidelines

The JRLF is designed, but not limited to the promotion of community and economic development activities within the Town of Johnson which support: creation/expansion of businesses, improvement or creation of residential/affordable housing stock with an emphasis on owner occupied housing, re-development of blighted land/buildings/facilities and brownfields to make them productive and or for re use, provision of capital and working capital for manufacturing and service companies with an emphasis on job creation, coordinating activities with other development agencies, loan programs and private lenders in the community, and improvement/construction of public facilities, utilities and infrastructure which support economic and community development. Primary beneficiaries will continue to be low and moderate-income residents of Johnson.

The program provides favorable interest rates and flexible payback options. Initial loan applications are submitted to the Lamoille Economic Development Corporation and, once complete, are reviewed by the Revolving Loan Fund Committee (RLFC). The RLFC shall review the loan applications for conformance with this Guidance Document. The RLFC will make a formal recommendation to the Selectboard to approve, approve with conditions or reject applications. Such recommendations will include, but not limited to: loan amount, rates and terms, collateral, closing terms an estimate of closing costs, additional information required, additional conditions to be imposed such as insurance requirement and any other recommendations. The Selectboard has ultimate authority and sole discretion over the approval of any loan.

The RLFC shall be appointed annually by the Selectboard and may be removed at any time without cause by majority vote of the Selectboard.

Purpose:

The general purpose of the JRLF is to promote economic and community development, provide "gap" or supplemental funding, funding for start-ups, job creation and retention with an overall goal of improving the community as a whole. The intent of the JRLF is to provide very low

interest rates and attractive terms and to put the funds to work for the betterment of the community. Housing Related Loans and Business, Economic Development and Disaster Recovery Loans, as defined below will be the focus of loans made through the JRLF.

Housing Related Loans: Loan applications related to housing improvements or creation shall first have received preliminary or conditional approval for funding by a state or non-profit organization expressly established for making improvements to existing or creation of new housing stock with an emphasis on owner occupied units. Such entities organizational purposes may include but need not be limited to: interior and exterior improvements, code compliance, energy efficiency and transformation, weatherization, accessibility, meeting the needs of an aging population, etc. If a project approved by such entities does not comply with applicable federal and state requirements for use of federal funds, applicant must show how the loan will comply. Priority shall be given for projects where JRLF would provide supplemental funding for these activities. JRLF may be considered for sole source funding in cases where an applicant has been preliminarily or conditionally approved, but there are no other available sources of funding from the approving agency or agencies.

Business, Economic Development and Disaster Recovery Loans. Loans from \$5000.00 to \$20,000.00 shall only be made for the purpose of providing working capital for businesses. Working capital, while not defined by HUD, shall generally be considered funding payroll, inventory, taxes, insurance, and equipment and related operational expenses at a reasonable level where those costs will assist or enable a business to retrofit, expand or start up in a way that provides benefit to low or moderate income persons (less than or equal 80% of area median income). If the business is a “micro business” (employing 5 or fewer employees) and the business owner(s) income meets the definition of moderate income, the application will have met the low/mod income benefit requirement.

For loans between \$20,001.00 and \$50,000.00, highest priority shall be given to loans for working capital, as above. Loans for projects where JRLF would be used directly for non-working capital purposes, such as construction, property acquisition, re-development, infrastructure improvements, code violation correction, etc., will require full review of and compliance with federal and state requirements governing the use of federal funds.

Specific purposes include:

- Provision of working capital.
- Business projects for start-up and expansion, and geared toward job creation and or retention, support of economic and community development and provision of goods and services that benefit the community and stabilize and diversify the economy.
- Purchase of machinery, equipment, furnishings and fixtures for business projects.
- Interior permanent improvements to existing commercial and residential buildings: repair/upgrade of code violations; energy efficiency (including energy transformation) improvements, accessibility improvements and related activities.
- Coordination with other development agencies, loan programs and private lenders to promote opportunities to capitalize manufacturing and service companies which will provide job growth and other economic and community benefits.
- Stimulating investment of private sector capital.

- Improvements to infrastructure, utilities or facilities which promote economic and or community development.
- Redevelopment of blighted buildings, lands, facilities or brownfields to make them more productive and or suited for re use.
- Undertake energy efficiency, energy transformation and renewable energy projects which further local and state energy goals.
- For properties located in Flood Hazard Zones, undertake flood resiliency and or flood prevention or mitigation improvements.

All improvements should result in: improved quality of housing, improved economic or community development conditions.

Eligible Loan Activities

- Manufacturing, commercial and service, and agricultural businesses including start-ups and small businesses, including fixed assets, land, buildings, inventory and equipment.
- Preference given to businesses that maximize job creation and or retention, with emphasis on value added, innovation, technology and growth-oriented products and or provide significant community benefit(s). At a minimum, the ratio of loan dollars issued to jobs created or retained shall not be less than required under the current version of 24 CFR Section 570.482 Eligible Activities (f) (2) (i).
- Residential or commercial property owners seeking to improve existing and or create new housing stock with an emphasis on owner occupied, as describe and limited above.
- Borrowers must be at least 51% U.S. citizens or legal residents.

Non-Eligible Loan Activities

- Refinancing or consolidation of existing debt.
- Reimbursement for expenditures made prior to loan approval.
- Any other purpose which does not meet the criteria and priorities set forth in this document or deemed as not serving the purposes of the fund by the Selectboard.

Lending Limits:

Minimum loan amount: \$5,000*
 Maximum loan amount \$50,000**

Lending to any one project shall not exceed 50% of the available funds in the JRLF (may be waived if significant benefit can be demonstrated to the satisfaction of the Selectboard)

Housing Related Loans. Lending limits, rates and terms may be tailored individually, but based on the same principles as the criteria below.

Business, Economic Development and Disaster Recovery Loans. Generally, there will be two classes of loans:

Small Loans between \$5000.00 and \$20,000.00 and

Large Loans between \$20,001.00 to \$50,000.00.

*Loan requests for amounts less than \$1000.00 will not be considered. Loan requests between \$1001.00 to \$5000.00, are strongly discouraged, but may be considered at the sole

discretion of the Selectboard, provided they meet the goals and criteria established in this document and demonstrate a compelling need.

****Loan requests exceeding \$50,000 which maximize job creation and or retention or which provide other significant community benefit may be considered, at the sole discretion of the Selectboard provided availability of funds currently held in the revolving loan program and any other factors deemed pertinent.**

Rates and Terms:

- Interest rates for small loans will be at the most current Wall Street Journal published rate at time of closing (WSJ) Prime Rate minus 1%
- Preferred term maximum for small loans is five years, but terms may be negotiated.
- Interest rates for large loans will be at WSJ Prime Rate minus 2%.
- Preferred term maximum for large loans is 15 years, but terms may be negotiated.
- Interest rates for small or large loans shall not be less than 1.5%. In addition the rate also shall not be less than the previous 12-month average rate of inflation as measured by the Consumer Price Index of the Bureau of Labor Statistics, unless specifically approved by the Selectboard, as below.
- Balloon payment or creative loan repayment options for large loans may be considered.
- Where there is a demonstrated and clear benefit to the community, at the sole discretion of the Selectboard, interest rates as low as zero percent may be considered and approved.
- If the Town and or Village of Johnson are applicants for a loan and there is a demonstrated and clear benefit to the community (as shown in an open application and review process), at the sole discretion of the Selectboard, interest rates as low as zero percent or negative percent may be considered and approved.
- All rates and terms shall be fixed upon closing

Applications:

Applications may be obtained from the Lamoille Economic Development Corporation or the Town of Johnson Municipal offices. Also available in digital format from either entity. Complete applications shall be submitted to John Mandeville, Executive Director of the Lamoille Economic Development Corporation. Only fully completed applications will be acted on. Assistance may be available from LEDC, depending on timing and availability.

Fee:

A fee of \$10.00 per \$1,000.00 of loan requested, with a minimum fee of \$50.00 and a maximum fee of \$100.00 will be charged for each application. Fees may be waived at the sole discretion of the Selectboard.

Loan Application “Checklist”

1. A well thought out business plan which addresses the following:
 - a. A brief explanation of the business or activity, its location, and at least a paragraph about the expected benefits of obtaining the loan.
 - b. A description of the educational, technical and business experience of the individuals involved in the management business.
 - c. List of licenses or permits needed for the business or activity.

- d. Discuss any personal needs associated with the business or loan.
 - e. Provide a brief analysis of the present and future market competition expected.
 - f. Describe the market or need for which the loan is requested and who needs the services or good you will provide.
2. Business entities shall provide suitable proof and certification of authorization for any person(s) applying for and or accepting the terms of an approved loan.
 3. If the business has any affiliates or subsidiaries, provide all names, the relationship to your business and all their balance sheets and operating statements.
 4. If you are buying machinery, equipment or other real goods, provide a detailed list of all items and their cost.
 5. A personal financial statement for each loan applicant.
 6. The following financial documents:
 - a. Balance sheet dated within 90 days of the application.
 - b. Profit and loss statement and or federal income tax records for the past three years.
 - c. Cash flow projections for the coming year.
 7. A list of each and any existing loans and or debts attributable to the business which includes the original date and amount, the current balance, interest rate, monthly payment, maturity and security pledged and a statement of whether the debt is current or delinquent.
 8. A statement of the collateral and its value which you propose to pledge to the loan, defining the relative security position of the Town for any collateral pledged.
 9. A statement of the direct benefits to low or moderate income persons expected to result from the loan in accordance with federal and state requirements.
 10. A statement of how the proposed loan purpose meets applicable federal and state regulations (National and State Objectives) which are subject to a loan from the JRLF.
 11. A statement of how many jobs will be created or retained and how those jobs will benefit persons of low or moderate incomes.
 12. Any other information requested by the Loan Review Committee.

Collateral:

Generally, applicants are expected to identify collateral and pledge it against the loan amount. Successful applicants will be required to execute appropriate loan documents, identifying collateral and pledging it to the Town of Johnson as a security interest and defining the security interest position of the Town. Persons identified as having an ownership interest in the business entity may be required to co-sign the loan applications and all related loan documents originating from a loan approval.

Insurance

Borrower may be required to provide the following types of insurance as a condition of loan closing:

Property and Casualty Insurance sufficient to cover the amount of the mortgage and debts, including the RLF loan;

Flood hazard insurance for loans made to any property located in a flood hazard zone, at a minimum in the amount of the RLF loan and any senior debt on the property. The Loan Committee may require the maximum insured amount allowed by the National Flood Insurance Program.

Business Liability Insurance shall be required for business loans.

Workman's Comp Insurance shall be required for all employees of the borrower subject to the RLF loan.

The Town of Johnson shall be named as an additional insured for all policies required by the loan.

Closing Costs:

All closing costs, including but not limited to, prepaid interest, title search, appraisals, credit reports, recording and other miscellaneous costs shall be paid by the borrower and may be included in the loan amount.

Other Provisions:

The applicant and Town will execute legally binding loan agreements to assure that the purposes of the program are followed and that the loan is adequately secured. These documents will be recorded with the Johnson Town Clerk and or the Vermont Secretary of State for UCC's. All loan funds will be placed in escrow for disbursement to the borrower.

Once executed, loans will be serviced by a bank or lending institution of the Town's choice. Loan repayment schedules and loan repayments by the borrower will be made through such bank or lending institution according to their standard practices.

Loan Rejection:

The Town of Johnson reserves the right to deny any application based on the following criteria.

- a. The applicant has not met the necessary requirements prescribed in the application process
- b. The applicant has not presented a substantial case for how a loan would meet the loan criteria and priorities outlined in this document.
- c. The applicant, or any of the principles is not in good standing with the Town (i.e. property tax delinquency, prior or current health and safety violations, and/or police problems)
- d. The implied risk of supporting such a business or person is deemed too high, and is considered an unsound investment opportunity
- e. Any other reason deemed prudent, reasonable and appropriate by the Selectboard.

Loan termination:

Loans under this program may be terminated and all outstanding balances become due if:

- The business relocates out of the Town of Johnson or out of the premises for which the loan assistance was given
- The business or person fails to complete the improvements within the time specified in the loan agreements
- The business or responsible person is in persistent violation of state and local building codes or ordinances
- The business or responsible person fails to obtain the necessary permits for the project funded with Town loan proceeds

- The business or responsible person defaults on two or more consecutive monthly loan payments (unless arrangements for deferral have been agreed to in writing by the Town)
- The business or responsible person fails to pay Town property taxes and any other related Town bills.
- The Town may charge a late payment charge of 5% for any late payments (after 15 days past due date) or for any payments rejected due to lack of sufficient funds.

Loan close out:

Upon repayment of the full amount for the original loan, the Loan Administrator will close out the loan and issue a Notice of Repayment to the applicant.

For additional information contact:

John Mandeville, Executive Director
 Lamoille Economic Development Corporation
 Brian Story, Town Administrator, Town of Johnson

For a digital copy of this document visit www.townofjohnson.com

Passed this ____ day of _____, 2018.

LEGISLATIVE BODY, SIGNED:

Eric Osgood _____
 Nat Kinney _____
 Doug Molde _____
 Kyle Nuse _____
 Michael Dunham _____

The above resolution is a true and correct copy of the resolution as adopted at a meeting of the Legislative Body held on the ____ day of _____, _____, and duly filed in my office.

IN WITNESS WHEREOF, I hereunto set my hand this ____ day of _____, 2018.