

SMALL BUSINESS LOAN PROGRAM

A. PROGRAM OBJECTIVE

The Small Business Loan Program is designed to encourage the creation or enhancement of business enterprises by providing a source of low interest financing. The program objective is to create new employment opportunities for low- and moderate-income (LMI) households.

B. ELIGIBLE APPLICANT

1. The applicant may be for a sole proprietorship, limited liability company, corporation, partnership, S-corporation or non-profit who will operate a business in the City of Auburn.
2. The business may be a start-up or an established business that has 5 or fewer employees.
3. Any taxes due on property owned by the borrower must be paid in full or acceptable arrangements are made with the Treasurer of the City of Auburn.
4. Only one loan will be made per applicant.

C. ELIGIBLE ACTIVITIES

1. Purchase of equipment or inventory.
2. Working capital (line of credit for operating expenses)
3. Construction improvements
 - a. If the project involves construction activity, then the administration to the loan shall follow the guidelines of the Rehabilitation Loan Program.

D. LOAN TERMS

1. The maximum loan amount is \$15,000.
2. The match requirement is 33% of the City's loan.
4. The interest rate is prime plus one-half (1/2%) percent based on rates published on the date of loan approval.
5. The applicant shall secure a commitment for 100% of the total project cost. The portion of the cost not financed by the City may be a combination of personal funds, or funds from a public or private lender. The applicant must obtain a commitment from the lending institution which describes the terms and any conditions of the commitment.

6. The maximum loan term is 5 years for equipment, 3 years for inventory and working capital, and 10 years for construction improvements.
7. Once established, the business must remain housed within the City for the duration of the loan.

E. JOB CREATION CRITERIA

Applicants will be required to create permanent jobs.

1. Microenterprises Activity

When the applicant's income is less than 80% of area median income, there will be no job creation requirement. The owner's job shall satisfy the requirement for low-moderate income benefit (LMI).

2. Special Economic Development Activity

- a. When the applicant's income is above 80% of area median income, a minimum of 1 full-time equivalent job will be created within six months after the loan is made.
- b. 51% of any jobs created will be taken by LMI households based on income limits established by the U. S. Department of Housing and Urban Development for Lewiston-Auburn SMSA. Jobs will be tracked for three years.
- c. Spin-off jobs, jobs that have an indirect link to the project and financing, and turn-over jobs, jobs that were previously taken by an employee and are now open, are not eligible to be counted to satisfy the jobs requirements.
- d. During the application process, jobs will be evaluated to determine if there is potential to satisfy the 51% low-income job requirement.
- e. The applicant will be required to sign a Job Agreement as a condition of the loan and comply with all required reporting.

F. APPROVAL PROCESS

1. Community Development Loan Committee

Loans will be reviewed by the Community Development Loan Committee who will be responsible for making a decision to approve or deny loan requests, and to establish loan conditions in accordance with the guidelines.

2. **Loan Considerations**

Applications under the Small Business Loan Program will be analyzed to determine risk according to typical lending considerations. In approving or denying loan requests, the Community Development Loan Committee shall be guided by the following loan considerations:

- a) Ability to repay
- b) Credit history
- c) Collateral
- d) Cash contribution
- e) Business plan/niche
- f) Previous experience
- g) Terms of other financing as defined in commitment letter.

3. **Appeal Procedure**

The reason(s) for rejection shall be given to the applicant. Loans that have been denied may be appealed to the Community Development Loan Committee for a period of thirty days after the date of rejection. The applicant will be allowed to present his/her case to the Community Development Loan Committee. The Community Development Loan Committee may reconsider their prior vote to deny the application after the appeal review has been completed.

4. **Waiver of Loan Amount and Terms**

The City Council may authorize a different interest rate, repayment term or loan amount than what is specified in this program guideline.

G. **ADMINISTRATION**

1. **Non-Discrimination**

Administration of this program shall be in accordance with Title VI of the Civil Rights Act of 1964 as amended. No person shall, on the ground of race, color, national origin, sex, age, disability, religion or familial status be excluded from participation in, be denied the benefits of, or subjected to discrimination under this program.

2. Participation by Religious Organizations

- a. Religious organizations can apply through the Small Business Loan Program with the understanding that funds cannot be used to support inherently religious activities such as worship, religious instruction, or proselytizing. The organization can engage in such activities, but the business must be at a different location than the place of worship. Jobs must be open to non-religious members, and religious participation by beneficiaries must be voluntary.
- b. The organization must not discriminate against an employee or prospective employee on the basis of religious belief or refusal to participate in a religious practice.

3. Household Income

For the purpose of determining eligibility, Community Development staff will calculate income by projecting the prevailing rate of income of each person at the time assistance is requested. Estimated annual income shall include income from all household members. Income will be based on the IRS Form 1040 method as defined by the Department of Housing and Urban Development.

4. Income Limits

To determine income for certain benefits under the Small Business Loan Program, Community Development staff will use income limits for Lewiston-Auburn SMSA, established by the Department of Housing and Urban Development and available in the Community Development Department. Revised income limits will be used upon receipt.

5. Loan Processing

Applications shall be processed on a first-come, first-served basis. Community Development Department staff shall use the receipt date of application to establish the order of priority. The applicant will be notified if there is funding available to proceed with the project and if there is inadequate funding, then the application may be placed on a Small Business Program Waiting List.

H. APPLICATION PROCEDURES

This section sets forth the application procedures for the Commercial Loan Program.

1. **Initial Application** - Loan application may be obtained from the (Community Development Department (CDD)).
2. **Loan Processing** - Community Development staff will evaluate eligibility of the application. The application will then be referred to the Economic Development Department for further processing. There will be a joint

presentation of the application to the Community Development Loan Committee by Community Development and Economic Development staff. After approval, Community Development staff will hold a loan closing. Disbursement of funds will require approval of both Community Development and Economic Development staff.

3. **Financial Submissions** - The applicant shall submit the application form, the last two years of business and/or personal tax returns as well as personal financial statements or other documentation from an accountant or other acceptable source. The applicant may be asked to supply a listing of personal property and inventory.
4. **Business Plan** - The applicant shall submit a business plan that
 - a) **describes the business** (type of business, the status of the business, the form of ownership, the profit potential, employment opportunities and other market/community benefits, and location and hours of operation);
 - b) **the market** (products/service, customers, market size, competition, estimated market share, production and distribution, image/packaging, advertising, and pricing);
 - c) **operations/organizational management** (management responsibilities, professional services, background and experience);
 - d) **financial plan** (management (costs, revenues/chart of accounts, assets, liabilities, cash flow projections, balance sheet, equipment list, and sources and uses, business pro-forma, chart of accounts, equipment list, and sources and uses of funds); and
 - e) **supporting documents** (personal resume, personal financial statement, job descriptions, letters of reference, copies of leases, contracts, etc.), as applicable.
5. **Loan Closing** - Loan documents shall include a promissory note, mortgage, security agreements, job agreement, and any other documents necessary to secure the terms and conditions of the loan. Any legal costs incurred by the CDD for closing documents will be the responsibility of the owner and may be paid for with loan proceeds.
6. **Disbursement of Funds** - Personal funds will be disbursed first. Bank and City funds will then be disbursed on a pro-rata basis.
7. **Post Closing Counseling** – The applicant will agree to meet with the Economic Development Department quarterly during the first two years after the closing, or more frequently, if necessary, to review the financial status of the business.

I. OTHER PROGRAM REQUIREMENTS

All loans will comply with applicable Federal Regulations, as amended, of the Community Development Program as listed below:

1. **Civil Rights** - The owner will be required to comply with Title VIII of the Civil Rights Act of 1968, as amended, barring discrimination upon the basis of race, color, religion, creed, sex, handicap, familial status, or national origin in the sale, lease, rental, use, or occupancy of the property.
2. **Federal Labor Standards Provisions** - The owner must abide by established minimum wage rates (Davis-Bacon Act) for the area for construction work exceeding \$2,000.
3. **Conflict of Interest** - No elected or appointed official or employee of the City of Auburn, and no member of any municipal board or committee which exercises any decision-making function with respect to the Community Development Program, shall participate in negotiating or shall exercise any influence in awarding or administering any contract in which he has a direct or indirect pecuniary interest as the term is defined by 20 MRSA Section 2250.
4. **Prohibition Against Payment of Bonus, Commission, or Fee** - The owner cannot pay any bonus, commission, or fee for the purpose of obtaining the City of Auburn's approval of the loan application, or any other approval or concurrence required by the City of Auburn or its designee obtain a loan under these guidelines.
5. **Equal Employment Opportunity** - The owner must abide by the provisions of Executive Order 11246 as amended by Executive Order 11375 concerning equal employment opportunity and will not discriminate against any employee or applicant for employment because of race, color, creed, religion, sex, familial status, handicap, or national origin.
6. **Lead-Based Paint Hazards** - Any loan made by the City of Auburn for construction work is subject to requirements of the Department of Housing and Urban Development's with respect to treating lead-based paint hazards as set forth in Title 24 CFR, Part 35.
7. **Flood Hazard Insurance** - If the property to be improved is located in a designated flood hazard area, the owner will be required to purchase flood hazard insurance or show evidence of coverage, and abide by the regulations of the Flood Disaster Protection Act of 1973 located in or owned in substantial part by persons residing in the area of the project.
8. **Environmental Review Procedures** - All projects shall be subject to environmental review procedures of the National Environmental Protection Act.