

# **NORTHUMBERLAND COUNTY REVOLVING LOAN FUND**

## **PROGRAM GUIDELINES**

January 2011

Richard J. Shoch, Chairman  
Samuel J. Schiccatano  
Kymberley L. Best



Northumberland County, in cooperation with PA DCED and HUD, has agreed to undertake a program for the generation of economic development activities in Northumberland County. Funds from the Community Development Block Grant, allocated annually to Northumberland County, will be awarded, as necessary, to the Northumberland County Industrial Development Authority (IDA) for the creation and continued operation of the revolving loan fund (RLF).

The purpose of the RLF is to provide a source of loan funds for businesses that would otherwise be unable to obtain traditional loan funds. The goal is to help foster entrepreneurial activity, economic development, and job creation activities. The RLF does this by providing low-interest financing to small businesses in conjunction with equity bank financing or other private and public sources. These funds are expected to be utilized to stimulate the expansion and assist in the retention of creating new jobs in Northumberland County. These guidelines have been prepared to expedite the approval process for revolving loan funds.

The Northumberland County Commissioners are responsible for the (RLF). To fulfill its purpose, the RLF is marketed and all loans are packaged, closed, and managed by the Northumberland County IDA. The IDA Board of Directors reviews loan applications and make recommendations for approval of the Commissioners. The Northumberland County Board of Commissioners and the Northumberland County Industrial Development Authority offices are located at 399 South Fifth Street, Sunbury, PA 17801.

The RLF is funded by the Federal Community Development Block Grant (CDBG) Entitlement Program and is therefore subject to all the rules and regulations described in 24CFR570, the CDBG regulations established by HUD.

### **Eligible Applicants**

The applicant for the revolving loan may be a public entity, a designated public agency, a non-profit corporation, or a private single purpose entity. An evaluation of the borrower's capacity and capability will be made.

In the case of a private single purpose entity, allowable ownership may be individual(s), general or limited partnership, corporation, and limited liability companies.

The borrower must be creditworthy and support that with professionally prepared financial statements. This includes both private and public entities.

Borrowers must be located within the County of Northumberland or agree to locate their business in the County prior to the disbursement of the loan. Firms classified as manufacturing, commercial, retail, and service related are eligible sectors for RLF financing.

## **Eligible Activities for the Revolving Loan Fund**

- Land Acquisition, building construction, reconstruction, rehabilitation or installation of commercial or industrial buildings, structures, and other real property. Land costs may include acquisition, site preparation and testing, utilities, site mapping, legal costs, and other related costs.
- Building costs including acquisition, construction, rehabilitation, engineering, architectural services, legal costs, and other related costs.
- Machinery and Equipment including acquisition, delivery, and installation limited to items directly related to the operation of the business.
- Infrastructure, including railroad spurs.
- Working Capital for significant expansion only primarily limited to inventory and new personnel costs. Other requests for working capital loans will be considered on a case by case basis. In such instances where the purpose of the working capital loan is not related to inventory or personnel costs as a result of a significant expansion, the amount of the loan shall not exceed \$50,000.
- Assistance to a private for-profit business: loans, loan guarantees, interest supplements, technical assistance, and other forms of support.

## **Loan Commitments:**

### **Maximum Loan Amounts**

The total maximum amount of revolving loan funds that an eligible entity may receive is limited to the amount that the IDA Board feels the financial documents can support to pay debt service. This amount will be determined by also evaluating the fund balance of the Revolving Loan Account to determine the amount the board feels comfortable making available for this particular loan, keeping in mind that other loan requests may be made. In the underwriting analysis, the IDA Board will establish the loan amount by performing various financial comparisons and ratio analyses.

### **Repayment**

It is anticipated that the primary source of repayment of the revolving loan will be from the projected cash flow as a result of the project or from other sources of revenue that are pledged specifically for repayment of the loan.

### **Other Forms of Repayment**

As a secondary source of repayment, the IDA Board will require additional security to be pledged for loan repayment.

### **Repayment Period**

The maximum term for the revolving loan shall not exceed twenty (20) years.

### **Private Sector Investment**

Loan will be made in participation with another source or sources of financing such as another lender or equity from the owners, shareholders, or partners of the borrower. Funds from other sources must equal 50% of the total eligible project costs. Startup businesses must provide 20% cash and readily attainable and marketable collateral contribution of 10% of the total project cost.

### **Additional Security**

The IDA Board may require additional forms of security to back up the loan. These include, but are not limited to:

- Liens on real and personal property
- Debt Service Revenues
- Third party Guarantees

### **Ineligible Activities**

- Refinancing existing debts. (Does not include interim financing or refinancing existing RLF loans.)
- Investor/developer projects or real estate speculation.
- Related party transaction, i.e. costs associated with a transaction where the buyer and the seller are one and the same or are related to each other by blood, marriage, or law.
- Loans to members of the IDA Board or loans to the immediate family members of the IDA Board or to anyone which section 24CFR570.611 “Conflicts of Interest” of the Federal CDBG Regulation applies.

### **Reserve Clause**

Northumberland County reserves the right to negotiate or deviate from the maximum and minimum amounts, the repayment period, repayment sources, percentage of loan guarantee, and any other terms and conditions, based on the merits of the application and the financial underwriting of the project. Additionally, these terms, as well as the execution of the loan must be approved by the Planning Department, DCED, and the Northumberland County Board of Commissioners.

### **Eligible Projects for the Revolving Loan Fund**

- **Business Loans** – funding provided to a local firm for expansion of its operations. Funds may be used for construction, purchase of machinery and equipment, gap financing, as a credit enhancement, etc. A project of this type would normally include other sources of funding and capital invested by the company. The project must create new job opportunities which would be made available to low- and moderate-income persons. The loan will be repaid by the company from cash flow from the increase in revenue from operations.

- **Business/Industrial Park** – funding provided to purchase improved or unimproved real estate for the development of a business or industrial park. The project would make sites available for companies to purchase and locate their operations at that site. The project should create new job opportunities which would be made available to low- and moderate-income persons. The loan would be repaid from the proceeds from the sale of land to private firms and from lease or rental income.
- **Infrastructure Improvements** – for the construction or reconstruction of access roads, the extension of public utilities, and installation of a railroad spur line, etc. to serve a private business or industry. The project should create new job opportunities which would be made available to low- to moderate-income persons. The loan would be repaid by the company from cash flow from the increase in revenue from operations.
- **Redevelopment Project** – fund would be used for the acquisition, relocation, rehabilitation of buildings, and clearance of site(s) for redevelopment purposes. The land would be sold to public or private redevelopers and the funds from the sale of the land would be used to pay off the loan. The project must benefit low- and moderate-income persons through the creation of new job opportunities.
- **Other** – Other eligible projects may be developed consistent with the list of activities eligible under the Loan Program. This may be a combination of eligible type activities or a variation of one of the project types enumerated above. Such other projects are subject to the review and approval of Northumberland County, DCED, and HUD.

## Loan Parameters

<b>Terms</b>	Land & Building	Up to 10 years
	Machinery & Equipment	Up to 5 years
	Working Capital	Up to 3 years
	*Terms may be adjusted by special request of borrower.*	
<b>Interest Rates</b>	2/12% fixed for the term of the loan. The Commissioners reserve the right to change the interest rate upon recommendation by the IDA.	
<b>Deferrals</b>	Borrowers may request special deferrals of principal for periods of up to 6 months.	
<b>Fees</b>	The IDA will charge the borrower a non refundable application fee of \$250 of the loan amount payable upon application submission and a commitment fee in the amount of 1% of the loan amount payable at the time of closing.	

**Penalties** The County of Northumberland will impose a 4% late charge on the monthly payment amount each month the payment is late until the account is brought up to date.

Failure to meet any terms or conditions of the loan may result in an increase in the interest rate two percent (2%) about the current prime on the outstanding principal for the remainder of the loan unless it is determined by the Commissioners that failure was due to circumstances beyond the control of the business. Further, these circumstances will be considered in evaluating future applications.

## **Application Procedure**

### **Application Dates**

Applications may be submitted at any time for the revolving loan fund.

### **Single Application Form**

The DCED Single Application which can be completed on-line or printed out by accessing [www.inventpa.com](http://www.inventpa.com) (type in “single Application” into the search engine.) It is strongly advised that the applicant hold a pre-application meeting to discuss the project idea prior to submitting any applications. This appointment can be scheduled by calling the Northumberland County Administration Center and requesting to speak with the Industrial Development Authority.

### **Northumberland County Offices**

For additional information or questions, applicants are urged to contact Northumberland County at 399 S. 5th Street - Sunbury, Pa 17801 – Telephone 570-988-4279 – Fax 570-988-4314  
[www.norrycopa.net](http://www.norrycopa.net)

### **Application Format – Preliminary Application**

The preliminary application should be submitted utilizing the single application form. Applicants should carefully review the instructions contained in the Single Application kit and submit the requested documentation in the outline format. The Single Application kit is designed for all DCED programs. Therefore, some information on the form may not be applicable to your specific project and should not be answered. Northumberland County staff are available to provide assistance if needed. During the recommended pre-application meeting staff will review the application if the applicant deems necessary.

Attach a narrative section to the Single Application. In the narrative include a description of the proposed project activities to be undertaken, the eligible type of activity to be financed, the public benefit to be derived from the proposed activities, the projected timetable, total project cost, sources and commitments of all funds, and any other pertinent information or documentation to support an application.

### **Initial Screening/Review**

Each submitted preliminary application will be reviewed for compliance with the minimum loan and application requirements.

- Eligibility of proposed use of revolving loan funds (located under “eligible activities” found in these guidelines)
- Compliance with the use of funds for eligible activities. (located under “eligible activities” found in these guidelines)
- Meeting criteria for a national objective of HUD
- Compliance with the public benefit requirements
- Review of the need for a revolving loan and previous efforts made to obtain financing for the activities without the use of revolving loan funds.

### **Final Application**

Once the preliminary application review is complete and a decision has been made on the amount of revolving loan funds, compliance with the national objectives, and eligible use of the funds, the county will notify the entity and request a submission of a final application for funds.

The IDA Board will initiate a 4 step review process of the entity’s final request, and the application will receive a decision. If approved by the IDA Board, the application will move to the Northumberland County Planning Department for review and consideration. The Planning Department will review the opinion of the IDA Board’s decision, as well as the loan application and supporting documents for consistency. If approved, the Planning Department will write an opinion and submit the application along with their opinion and that of the IDA Board to the PA Department of Community and Economic Development for their decision. If approved, the final step is to send the underwriting analysis and supporting documents, along with the final application to Board of Commissioner’s for final approval. This action will be completed by the Planning Department in conjunction with the IDA.

The IDA Board will be working in conjunction with the Planning Department to perform a financial and underwriting analysis of applications (loans). These applications (loans) will then be approved individually by each entity. Their opinions may differ but it is anticipated that if any governing body does not approve the application (loan), the application (loan) will not proceed to the next step.

### **Application Format**

The final application will come neatly presented and contain the following elements and documentation. It is expected that a minimum of four (4) copies be presented such that each review body will retain one (1) copy for their files.

- A revised Single Application Form, if the financing has changed since the preliminary application was submitted.
- A project narrative providing the location of the proposed project, a project description, time schedule, and other pertinent information to fully describe the use of the revolving loan funds.
- The proposed use of revolving loan funds and compliance with the program objectives
- Statements on:
  - The eligibility of the proposed activities to be financed with revolving loan funds in accordance with the federal regulations;
  - The national objective to be met;
  - The public benefit standard to be applied;
  - Potential benefit to low- and moderate-income persons;
  - Conformance with the community's or region's comprehensive plan(s)
  - The financial feasibility of the proposed project,
  - The "but-for" rationale; and
  - Commitment of funds.
- A proposed repayment schedule with the term of the loan, loan amount, anticipated interest rate, annual payment amount, and sources of funds identified to repay the revolving loan.
- Signed copies of the federal certifications required for the revolving loan.
- A signed original of the resolution of the governing body approving the application and authorizing submittal. (These documents will come as each level of approval is obtained)

### **Budget/Financial Plan**

In the final application, the entity must provide a budget/financial plan that identifies all sources of funds to undertake the project. These funds shall be identified as to source, amount, if funds are grants and/or loan, the terms of the grant contract (if applicable), terms of any loans, repayment provisions (if applicable), security position, and whether the funds listed are committed or pending.



### **Certifications**

In accordance with these program guidelines the following certifications are required:

- Articles of Incorporation, bylaws, etc.
- Certification of Efforts to Obtain Other Financing and the outcomes (i.e. a letter from a lending institution)
- Certification Regarding Drug Free Workplace Requirements
- Statement Regarding Lobbying

### **Resolutions**

The governing body of the entity must approve the application for a revolving loan and authorize the submission of the application for final approval. In the case of the revolving loan fund, this resolution will come from the Northumberland County Board of Commissioners.

### **Approvals**

The revolving loan fund will require 4 approvals (they are listed in order of approval)

- The Board of the Industrial Development Authority
- The Planning Department
- The PA State Department of Community and Economic Development
- The Northumberland County Board of Commissioners.

Each of these approvals is contingent upon the positive outcome of the prior approving body. At no time should it be assumed that if one (1) of the above entities grants approval that the others will immediately follow suit. Each entity has the authority to act autonomously on the application.

Each entity will review the final application submitted and grant or deny approval. They also may disapprove or reduce the amount of the loan assistance for any of the following reasons when they determine that the guarantee constitutes an unacceptable financial risk. Factors that will be considered in assessing financial risk include, but are not limited to, the following:

- The length of the proposed repayment period;
- The ratio of expected annual debt service requirements to expected annual loan amount;
- The entity's ability to furnish adequate security; and
- The amount of income the proposed activities are reasonably estimated to contribute towards repayment of the loan

In addition, the department may disapprove the loan request based on any of the following factors:

- The requested loan amount exceeds any of the maximum limitations.
- Funds are not available in the amount requested.
- The previous performance of the entity is unacceptable.
- Activities to be undertaken with the funds are not eligible.
- Does not meet the public benefit test.
- Activities to be undertaken with the loan funds do not meet the criteria for compliance with one of the national objectives of HUD.

Any approval body reserves the right to not approve the application based on any other combination of factors and will notify the entity in writing that the loan request has either been approved, reduced or disapproved. If the request is reduced or disapproved, the entity shall be informed of the specific reasons for reduction or disapproval.

#### **Financing – Underwriting Standards**

A separate document has been developed to detail the underwriting standards that will be utilized to determine the economic feasibility of each proposed application.

The basic underwriting position is there should be two different sources to repay the loan. Cash flow from operations is the primary source of payback; the secondary source is the collateral to secure the loan. If all collateral resources are exhausted, a third source, if necessary, may be other financial resources of the entity.

A company is considered a good credit risk when the existing cash flow of the company exceeds the proposed debt service and all the evidence and trends suggest that cash flow will continue to exceed the proposed debt service. If the company can demonstrate that its cash flow from operations generates enough cash to repay the proposed borrowings, the loan should be approved.

If a company fails to achieve this test, it does not mean that the business is not credit worthy. Instead, in order to repay the proposed obligation, the company's sales must grow and profits must increase. Failure to grow will mean that the borrower will have difficulty repaying the loan from cash flow in a timely manner. In order to assess the ability of the company to grow and increase profits, the company's cash flow projections will be evaluated. The projected cash flow, based upon a reasonable and achievable projected Profit and Loss Statement, must be adequate to repay the proposed debt service.

In addition to evaluating the reasonableness and attainability of the projected cash flow, the capability of the company's principals will also be taken into consideration. The principals must demonstrate adequate organizational skills to be able to generate and manage the necessary growth and to increase the profits to the level at which cash flow will be sufficient to repay the proposed debt.

If a company fails to achieve the cash flow test and the public entity feels that providing the requested loan would be vital to the survival of the enterprise and as a result, a considerable number of existing jobs would be saved, Northumberland County IDA will reach out to the Planning Department, DCED, and the Board of Commissioners to look for a permissible surrogate or alternative repayment means. It is at this point that all approving bodies will meet to discuss their opinion on suggested options. A proposed surrogate repayment could be tangible and identifiable sources of repayment with a high degree of reliability. Potential sources of repayment could be standby letters of credit from a reputable third party, outside guarantees, outside income streams, or outside collateral. The collateral of the project and company cannot serve as primary means of repayment, because it is already being relied upon as the secondary sources of repayment if the primary means fails.

### **Documentation Required**

In order to assist in performing the financial underwriting of the proposed loan, the entity will need, as a minimum, the following documentation:

- 3-years of financial statements for the company and/or the principals of a start-up business. (These statements should come preferably audited and/or prepared by a certified accountant)
- Statement of projected cash flow for the life of the loan.
- Credit reports of the company and of the principals
- Personal guarantees (for any shareholder of greater than 20%)
- Business plan for a start-up firm or expansion of an existing firm.
- Narrative Statement on the experience of the principals or key management personnel.

### **Loan Initiation Fee**

A loan initiation fee of one-quarter (1/4) of one percent (1%) will be applicable for economic development type projects.

### **Reporting Procedures**

#### **Meeting National Objectives**

The primary national objective to be used for the Revolving Loan Program is – “benefiting low- and moderate-income persons.” These are listed below:

**Area Benefit Activity** – where the benefits of the activity are available to all the residents in a particular area, where at least 51% of the area’s residents are low- and moderate-income persons.

**Limited Clientele Activity** – where the activity benefits a limited clientele, at least 51% of whom are low- or moderate-income persons. The activity could benefit a clientele who are generally assumed to be principally low-and moderate-income. (The following categories of persons are presumed to be low moderate-income: abused children, battered spouses, elderly persons; adults meeting Bureau of Census’ Current Population Reports definition of “severely disabled”; homeless persons, illiterate adults; persons living with AIDS; and, migrant farm workers.) The activity could have an income eligibility requirement which limits the activity exclusively to low-and moderate-income persons. Or, the activity could be of such nature or be in such a location that it may be concluded that the activity’s clientele will primarily be low- and moderate-income persons.

**Job Creation or Retention Activities** – which is designed to create or retain permanent jobs where at least 51% of the jobs (computed on a full time equivalent basis), involve the employment of low- and moderate-income persons. For an activity that creates jobs, at least 51% of the jobs will be held by, or will be available to, low- and moderate-income persons.

### **Tracking Job Creation**

The entity must monitor the jobs created from the employment records and the method of hiring that the company used to fill the positions. For purposes of determining whether a job is held by or made available to a low- or moderate-income person, the person may be presumed to be a low- or moderate-income persons if:

- He/she resides in a census tract that has a poverty rate of at least 20 percent or
- He/she resides in a census tract that has at least 70% of its residents who are low-and-moderate income.

In addition, if the business to be assisted with a loan is located in either a 20% poverty census tract or 70% of its residents are low- and moderate-income all of the jobs to be created will be assumed to benefit low-and moderate-income persons.

### **Public Benefit**

The proposed use of the loan funds must provide a minimum level of public benefit. The activity must:

- Create or retain as a minimum, at least one full-time equivalent permanent job per \$25,000 of loan funds, or
- Provide goods or services to residents of the area, such that as a minimum at least one low-and moderate-income resident of the area benefits from each \$350 of loan funds expended.

### **Sanctions - Repayment/Default**

The entity that receives the loan funds shall enter into a contract with Northumberland County IDA. Should the business or industry that receives the loan funds default on its payments, it will be held responsible for the repayment of the debt obligations. The Northumberland County IDA will foreclose on the note and if sufficient funds are not available to repay the loan, action will be pursued in any legal way possible to recover the funds.

### **Performance Deficiencies**

Should the actual use of the loan funds not comply with the federal regulations, actions may be taken against the entity. Remedial actions will be imposed if the loan funds do not meet the public benefit requirements or a national objective. If deficiencies are found, the following actions may be undertaken:

- A warning letter will be issued advising the entity of the deficiency and putting the entity on notice that additional action will be taken if the deficiency is not corrected.
- Request the entity to submit a proposal for corrective action which includes a timetable, responsible parties, and other actions that will be undertaken to prevent a continuance of the deficiency, mitigation of the adverse effects, and ways to prevent a recurrence of the deficiency.
- Advise the entity to suspend disbursement of the loan funds.
- Advise the entity to reimburse the program for any amounts improperly expended.
- Institute collection procedures.

### **Conditions of the Loan**

If a borrower has secured loan approval from the Northumberland County Commissioners, the borrower may place orders, sign sales agreements, and make security deposits on machinery and equipment and land and buildings prior to receiving payment without prejudicing the application. IN THESE INSTANCES THE BORROWER IS PROCEEDING AT ITS OWN RISK. Machinery and equipment, however, may not be installed or used not may construction or titles transfer on land and buildings prior to final approval. Also, the borrower may not commence with any other portion of the project until final approval is granted.

The beneficial owner must have at least seventy (70%) ownership in the occupant. In addition, each partner or shareholder in the beneficial owner except family members must have some interest in the occupant.

The borrower and principals must not be delinquent or in default on any existing private or publicly financed loan and will be required to sign an affidavit to that effect.

The borrower and principals must be current in payment of all applicable local, state, and federal taxes.

Each business enterprise shall update the information provided in its application if conditions change to the extent that the original information becomes inaccurate or misleading.

Each business enterprise which receives assistance under this program, upon reasonable request, shall permit duly authorized employees of the County of Northumberland, its heirs and assigns to inspect the plant, books, and records of the business.

Any material changes in the use of funds, collateral, or terms of the loan must be reviewed by the IDA Board, the Northumberland County Commissioners, and the PA DCED.