

## VIRGINIA ECONOMIC DEVELOPMENT ASSOCIATION (VEDA)

### RURAL BUSINESS ENTERPRISE GRANT (R-BEG) – UNDERWRITING GUIDELINES

Loans will be administered by the City Administrator of Virginia and the VEDA Loan Committee. Kris Johnson, Administrative Assistant, is currently responsible for loan administration and helping applicants obtain loans from the revolving loan fund. Kris can be reached at:

Phone: 218-748-7500

E-mail: [krisj@virginiamn.us](mailto:krisj@virginiamn.us)

City staff will provide technical assistance on an “as needed” basis. Staff may also provide applicants with contact information to obtain technical assistance from other resources. Prospective applicants are encouraged to use business advisory services offered by the UMD Center for Economic Development. Analysis and advice from this entity are strictly confidential and intended to help small businesses succeed. Advisory session(s) would include, but are not limited to:

1. Discussion on how the loan would improve, or maintain, the client’s business position
2. Analyzing the business plan and financial information for the client.
3. Matching financial needs with a loan amount, and term, the client can reasonable pay back.
4. City staff can supply contact information for UMD advisors.

### PURPOSE AND LIMITATIONS

**Projects to be financed may include, but are not limited to:**

1. We (VEDA) have determined that these loan funds can be used for any business in the City of Virginia. We can also provide funding to businesses in the surrounding communities of Eveleth, Gilbert and Mt. Iron, based upon their regional impact and interdependence between communities. We reserve the right to prioritize funding within the City of Virginia.
2. Acquisition and development of land, easements, and rights-of-way
3. Construction, conversion, enlargement, repairs, or modernizations of buildings (including façade repairs), plants, machinery, equipment, access, streets and roads, parking areas, utilities, and pollution control and abatement facilities.
4. Loans for startup operating costs and working capital
5. Technical assistance for private business enterprises.
6. **RETAINING AND CREATING FULL TIME JOBS IS THE FUND GOAL.**

**Revolving loan fund limitations:**

1. Funds will not be used to produce agricultural products through growing, cultivation, and harvesting, either directly or through horizontally integrated livestock operations, except for commercial nurseries, timber operations, or limited agricultural production related to technical assistance projects.
2. Funds will not be used to finance comprehensive area-wide type planning. This does not preclude the use of grant funds for planning on a given project.

3. Funds will not be used to finance a part of a project which is dependent on other funding unless there is a written commitment of the other funding to ensure completion of the project.
4. Loans will not be made unless there is a reasonable prospect the applicant meets the definition of "small and emerging private business enterprises" defined as "any private business that will employ fifty (50) or fewer new employees has less than one million (\$1,000,000) in projected gross revenues.
5. At least 51% of the outstanding interest in the project must be owned by those who are either citizens of the United States or reside in the United States after being legally admitted for permanent residence.
6. Applicants by members of the loan committee and their immediate family members shall be ineligible for funding

**OTHER LENDING CRITERIA:**

1. Loans from the revolving loan fund cannot exceed the level of available funding in the loan fund bank account; currently set at \$199,000.
2. Loans can be amortized over the lesser of 84 months (7 years) or the life of the security.
3. The interest rate shall not exceed five per cent (5%). Current loan interest rates can be found later in this document.
4. Security shall consist of the best lien available on real estate, equipment, inventory etc. The discounted value of the security (using typical lender discount rates) shall equal or exceed the value of the loan. The loan committee may require personal guarantees and/or co-signers.
5. There must be evidence presented by the applicant that indicates the revolving loan fund loan is necessary to make the proposed project feasible.
6. Revolving loan fund loans can be used to pay off existing debt if it will help to retain or create jobs. Documentation of the savings and how it will meet job saving criteria must be supplied.
7. If the business relocates outside the **City of Virginia**, the Loan Committee may require immediate pay off of the loan.
8. The proposed project must be presented to the Loan Committee by the prospective business owner or her/his representative.
9. The Loan Committee may require written feasibility studies, business plans, market studies, etc. as appropriate for the business type.
10. Costs associated with processing the application (e.g. credit report fees, Uniform Commercial Code (UCC) and lien search fees, filing security documents, filing legal documents fees etc) shall be the responsibility of the applicant. The Loan Committee may waive or amend this fee structure without further approval from the U.S.D.A.

## **LOAN TERMS, OPTIONS, AND INFORMATION**

It is the goal of the Loan Committee to encourage short term loans that will:

1. Roll over quickly; allowing the loan fund to provide help to a larger number of clients over time. Loan rates therefore become higher as the length of the loans become longer.

The committee understands that “a single loan provision for all clients” may not meet their needs. We have therefore made the following loan options available.

### **Minimum Loan: \$5000**

\*The Loan Committee may consider smaller loans if the balance of the Revolving Loan Fund is less than \$5000.

### **Maximum Loan: \$100,000**

#### **Loan Structures:**

- **TIER ONE:**
  - Length of loan- up to 36 months
  - 1.75% interest rate
- **TIER TWO:**
  - Length of loan- from 37 to 84 months
  - 2.25% interest rate

Loan amortization payments shall be made on a monthly basis. Debt reduction payments (on principal) shall be made separately; specifying the payment as “Payment on principal”

## OTHER LOAN CRITERIA AND INFORMATION

### CREDIT SCORE EVALUATIONS

- Min credit score 640
- 3 years from discharge date of any personal or business bankruptcy
  - Will still require a letter of explanation on the reasons of the Bankruptcy
- Letter or explanation required on any judgments
- The Beacon Score will be used to determine credit score
- No Federal Tax Liens will be accepted

### APPRAISALS ON REAL ESTATE

- A full commercial appraisal by a licensed commercial appraiser is only required when borrower does not feel the standard calculation of value is sufficient or does not support the loan scenario.
  - Appraisers in area licensed
    - Dawn Cole
    - Wayne Edwards
    - FI Salter - Duluth
    - Frank Bigelow - Hibbing
- Standard calculation of value will be as follows:
  - 100% of property tax value plus any additional funds that are used to make improvements to the subject property.
    - \$50k tax value plus \$20k in improvements from the loan = \$70k usable value
    - \*\*or use the full value of an commercial appraisal if completed within the last 12 months

### APPRAISALS OTHER THAN REAL ESTATE

- We will consider 75% of the market value of any new or used equipment.
- We will also consider 75% of the value of accounts receivable, inventory and working capital

## TITLE WORK

- The minimum requirement for title report will be an OWNER'S AND ENCUMBRANCE policy with a plat drawing through a local title company. Northeast Title, UP north title or Consolidated Title Company.
- No title insurance is being required on these loans
- We will require the title company to do the closing and disburse the funds/record the documents

## UNIFORM COMMERCIAL CODE FILINGS

- A UCC filing will need to be completed on any equipment used as collateral for the loan
  - Each item will have a separate UCC filing

## INCOME-ESTABLISHED BUSINESS

- Last 3 years of personal and business tax returns
- Cash flow will be a primary consideration in successful loan applications. The formula below will be used to determine a free cash flow factor.

$$\frac{\text{Net income} + \text{depreciation} + \text{amortization} + \text{interest expense}}{\text{Annual principal and interest payments}}$$

- If the result of the formula is less than 1.0, a loan will most likely be denied

## INCOME-NEW BUSINESS

- 2 year of projections

USDA may require environmental reviews, a narrative to the State Historic Preservation Board if the building is older than 50 years, and could request further information from the review by certified individuals. We will present this to the borrower if it is required. These costs are to be paid by the borrower.

## CLOSING COSTS

All closing costs are to be paid by the borrower. We will not require them to pay the fees upfront but instead require them to be paid in full at the time of closing. We will allow them to be paid out of loan proceeds if the borrower wishes.