



**Maine Department of Economic and Community
Development and**

1. City of Rockland

Community Development Block Grant Program

**Knox County Regional
Micro-Loan Program Guidelines**



**EQUAL HOUSING
OPPORTUNITY**

Adopted June 10, 2004 by Micro-Loan/Grant Review Committee

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C/O Rockland Community Development Department

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The Community Development Block Grant (CDBG) Program Knox County Micro Program provides the participating communities of Rockland, Rockport, Union, Warren and Thomaston with funding to create a pool of capital for businesses creating or retaining jobs for low-to-moderate income people. **The Rockland Community Development Department is the program administrator.** The funds and any program income provided by the 2004 Community Development Block Grant (CDBG) Community Enterprise Grant Program will be used for making micro-loans to small businesses. *Program income from previous loans will be used for making loans, not grants.*

Communities receiving these funds must establish a loan review committee, create program guidelines to govern how the money is loaned, track jobs and do other administrative tasks. This guide outlines procedures and forms that Rockland must use to administer the micro-loan fund.

The guidelines are consistent with federal regulations. To ensure this consistency, Rockland has certified to the Maine State Office of Community Development that all applicable federal regulations have been met.

I. Administering a Micro-Loan Program

A. Establishing a Micro-Loan Committee

Micro-Loan recipient communities must establish a loan committee. This committee will review and approve applications to the loan fund. Committee member names are included in these Guidelines.

1. Micro-Loan Committee Composition

a) The loan review committee should be comprised of one representative from each participating community and may consist of the following members:

- (1) Selectperson/Councilor appointed by the Selectpeople/Council;
- (2) Business person appointed by the Selectpersons/Council;
- (3) Attorney appointed by the Selectpersons/Council;
- (4) Certified Public Accountant or practicing accountant or banker appointed by the Selectpersons/Council;
- (5) Resident appointed by the Selectpersons/Council; and
- (6) A municipal official appointed by the Town/City Manager.

b) The Rockland Community Development Director or his/her designee may participate as an ex-officio, non-voting member of the Committee.

- c) All appointments and terms to the committee will be made by and set by the community they represent on the loan review committee.
- d) The current operating loan review committee is designated as the Knox County Regional Micro-Loan Review Committee (also referred to as the Rockland Area Micro-Loan Program). The lead municipality must submit the operating procedures of this entity to the Office of Community Development.
- e) The Micro-Loan Committee may select a Chair to conduct the proceedings of the loan reviews and designate Secretary to record all proceedings. Chair may be a voting or non-voting member. Or, have the Community Development Director or his/her designee conduct the meetings.

2. Quorum

A minimum of three (3) voting committee members must vote to constitute a quorum. All votes must be recorded. For matters of convenience and expediency phone or email votes may be taken and recorded.

3. Responsibility for Compliance

The City of Rockland **Community Development Department** is overall responsible for the administration of this Micro-Loan program and may charge a 10% annual administrative and/or a 10% fee for processing loan applications. Another participating community may be designated as the lead community for the application and program.

4. The Role of the Loan/Grant Review Committee

- a) The Loan Review Committee or its designated agents the City of Rockland **Community Development Department**, or another designated community, are responsible for securing all necessary documentation and performing the required financial reviews and analyses, executing the loans and monitoring the business for job creation or job retention; and, adopting guidelines and approving amendments to the guidelines.
- b) Other Knox County Communities may be added to the consortium upon approval of the majority of the Review Committee members, after submitting a request and accompanying documentation.

II. Lending Criteria

A. Location of Business: Businesses eligible for Micro-Loan funds must be located within the Knox County Municipalities of Rockland, Rockport, Union, Warren and Thomaston that contracted with Office of Community Development for the Micro-Loan Program funds.

B. Eligibility:

1. Micro-Loan applications must be for activities eligible under Section 105 (a) (17) (A) of the Housing and Community Development Act of 1974, as amended. Loans can be used for profit and not for profit businesses for the following:

- a) Real property acquisition that is essential to the operation of a business;
- b) Capital equipment and fixtures;
- c) Building construction and/or rehabilitation;
- d) On-site utilities;
- e) Inventories and supplies;
- f) Lease hold improvements;
- g) Working capital; and
- h) Relocation of persons and/or businesses as a result of property acquisition or facility expansion.

2. Under this program, loan refinancing, and activities that construct, support or assist housing-related projects are ineligible to receive Micro-Loans; except as part of a mixed used project or development in the Downtown area of each community as defined and documented by each participating community and approved by the Review Committee.

C. Maximum Loan Amounts and Leverage Requirements: The maximum micro-loan is up to \$25,000 as determined by the Review Committee. Micro-loans may provide up to 100% of the total financing package up to \$15,000 as determined by the Review Committee. Loan leveraging packages exceeding \$15,000 require a minimum dollar-for-dollar match for each dollar over \$15,000. The match provided to meet this requirement must represent a new investment or project. Loan leveraging of private investment and owner's equity is encouraged and essential. Submission of paid invoices as evidence of the expenditure of matching funds, and that the matching funds be spend before loan funds are drawdown or expended. Submission of paid invoices required prior to the release of loan funds. (3-20-7)

D. Job Creation and Job Retention:

1. To be eligible to receive a Micro-Loan through this program, the recipient business must be creating or retaining jobs for low to moderate income people. 51% or more of the jobs created or retained must be taken by persons from low to moderate income households as defined by HUD income guidelines for Knox County, as updated and included in these Guidelines.

2. The City of Rockland Community Development Department which is administering the Micro-Loan funds, are required to maintain records that will demonstrate that the job creation and retention requirement has been met. A tracking system, the “Job Creation Benefit Data System”, is included in these Guidelines.

E. Amount of financing per job created/retained: A business must create or retain at least one job per loan. As discussed above, 51% of the jobs created or retained must be taken by individuals from low to moderate income households. The follow are examples. If only one job is created or retained, it must be filled by a low to moderate income person. If two jobs are created or retained, one of the two jobs must be filled by a low to moderate income person. If three jobs are created or retained, two of the three jobs must be taken by low to moderate income persons.

F. Financing must be “necessary and appropriate”: Committees reviewing Micro-Loan applications must perform an in-depth financial analysis to assess whether the financing is necessary in order for the business project to be viable. The analysis must also ensure that the Micro-Loan is neither unduly enriching a business nor simply replacing other available financing. In addition, the analysis should also support the amount of financing in relationship to the public benefit that will be obtained from the project.

G. Terms of loan: The terms of repayment of the Micro-Loans are up to 4% APR maximum for five years. The loan review committee will set these terms, upon staff recommendations, after considering the financial gap to be filled, the potential rate of return and the benefit to be realized from assisting the applicant business.

H. Payment period: The loan review committee should require monthly payments unless another appropriate method or arrangement is deemed suitable after a review of the application.

I. Application costs: Applicants for Micro-Loans must pay the costs associated with preparing the documentation and papers necessary for making application to the program. This includes legal document preparation/review, credit checks, recordings/filings and closing statements/documents.

J. Collateral requirements: Collateral is required to secure all Micro-Loans as well as personal security guarantees. At the time of application, the business must provide documentation that verifies that the loan is 100% collateralized. Unless otherwise stipulated by the Loan Review Committee collateral shall be real estate. (3-20-7)

K. Penalties for Late Payments: In the event that a loan payment is 15 days in arrears, a late payment charge of 5% of the loan payment will be added.

III. Loan Application Requirements

A. The Micro-Loan application must include the following information (A sample Micro-Loan/Grant application is included in the Appendix of this guide):

1. Business Balance Sheets: Both historical and projected for a minimum of three years
2. Profit and Loss Statements: Both historical and projected for a minimum of two years
3. Proforma Cash Flow for two years
4. Current Balance Sheet and Profit and Loss Statement (not over 90 days old)
5. Current financial statements of principals with greater than 20% ownership existing or proposed
6. Information about the form of ownership
7. Resumes of principals and/ or management
8. Marketing analysis and/business plan
9. Project Budget
10. Existing and Proposed obligations of the business
11. Equity commitment letter; if required
12. Collateral Form, and applicable documentation that substantiates the fair market value of such collateral
13. Documentation showing ownership of property or anticipated real property conveyances such as sales agreements purchase options or lease agreements.
14. Commitment to a personal guarantee.
15. Credit Check

IV. The Micro-Loan/Grant Application Process

A. Applications for the Micro-Loan Program will be evaluated on first come, first serve basis. Decisions on loans should be made within 30 days from the date of application, unless otherwise extended.

B. Applicants for Micro-Loan Program funds must be the owner, partner, chief executive officer or have power of attorney to make application.

C. Applications for Micro-Loan financing must be reviewed by the Loan Review Committee according to the requirements described in these Guidelines.

D. Upon final review of the application, the Loan Review Committee must vote to approve or refuse financing.

E. After the loan application has been approved, a written Loan Agreement will be developed. The Loan Agreement must state all of the terms of the loan including any specific conditions for the loan. An authorized or designated municipal representative and the applicant must sign the Loan/Grant Agreement.

F. Unsuccessful loan applicants may request reconsideration by the Loan Review Committee in instances of error of fact or procedure. This reconsideration may not be

based on judgments concerning the feasibility of the proposed project or creditworthiness of the applicant.

V. Executing the Loan/Grant

A. The Rockland Community Development Department and its attorney are responsible for securing the following loan documents upon execution of the loan:

1. Micro-Loan Agreement;
2. Corporate and/or Personal Security Guarantee;
3. Promissory Note;
4. Mortgage Deed;
5. Security Agreement;
6. Uniform Commercial Code (UCC) or;
7. Other or suitable collateral or substitute.

B. The cost of filing these documents may be passed on to the applicant.

C. An attorney may review all loan documents and ensure that they are appropriate for the particular applicant and the City. The applicant will pay for this legal review.

VI. The Loan Review Process

The local Loan Review Committee, or their agents, is required to perform an in-depth analysis of all business loans. This analysis includes insuring that the loan will meet all eligibility, national objective and financial analyses required by the CDBG Program. All loans under the Micro-Loan Program must meet these requirements.

A. Determining Eligibility

The CDBG assistance must be “appropriate.” Under HUD’s current policies, a loan review committee must review a business’ need for financing as part of its loan application deliberations. A decision by the loan review committee to approve a Micro-Loan should be based on the amount of assistance requested, a demonstrated need for financing and should allow the business a reasonable return on its investment, consistent with industry standards for that type of business.

B. The CDBG assistance can only be provided where a national objective is met. Economic development activities like the Micro-Loan Program must meet the HUD national objective of benefiting persons of low to moderate income. To meet this objective, at least 51% of the jobs created or retained as a result of a Micro-Loan/Grant award must be taken by persons of low to moderate income.

C. Financial analysis must be performed. The primary function of the Loan Review Committee is to review the applications submitted for Micro-Loan funding. Their financial analysis consists of two parts:

1. Initial Consideration

The Committee determines the need for a loan and devises a loan structure that insures business profitability.

2. In-depth Review

In this stage, the Committee examines the loan application as described earlier and evaluates the loan feasibility within the guidelines of the program, financial considerations and meeting all CDBG requirements.

D. If the applicant(s) has received a previous Micro- Loan, which has not as yet been paid off in full, all repayments, must be current, and none in arrears or outstanding on the date of application.

E. For projects involving building rehabilitation, construction, on-site utilities, relocation, or lease-hold improvements, all property taxes, sewer charges, liens and mortgages on the building benefiting from the loan program must be current, and none in arrears or outstanding on the date of application.

VII. Municipal Loan Review Capacity

A. If the City of Rockland or the Office of Community Development does not feel that the appropriate level of review can take place at the local level, the City of Rockland can choose to have an agent perform the necessary reviews for it. This should be a hired individual with lending experience, a local bank, a financial consulting firm, a Regional Planning Commission or economic development agency with the appropriate loan services and experience, a Small Business Development Center, area chamber of commerce, etc.

B. If an agent is utilized, the Loan Review Committee must still vote on accepting or rejecting an application and will act on behalf of the community to execute the loan documents.

VIII. Loan Committee Review Criteria

The following section outlines the level of review that the Local Loan Committee must perform in its capacity as grantor of Micro-Loan funds. In addition to reviewing each aspect, the Committee must maintain documentation describing how each criterion is being met in a given loan application.

A. CDBG assistance can only be provided to businesses that demonstrate that the assistance is “appropriate” to carry out the economic development project.

B. The Loan Review Committee must consider the business entity’s need for financial assistance, the amount of the loan and the benefit to be received by assisting the business. CDBG assistance should allow the business a reasonable return on investment, consistent with industry standards for that type of business. CDBG assistance which is excessive when comparing the actual needs of the business in making the project

financially feasible and the extent of public benefit expected to be derived is not considered “appropriate” under HUD policies. Such a loan would not meet the statutory obligation required of economic development projects.

C. The following elements must be included in each Loan Review Committee determination:

1. Reasonableness of Proposed Project Costs - Each Project cost element should be reviewed to insure that the cost is reasonable and is consistent with third party, fair-market prices for that cost element.
2. Commitment of Other Sources of Funds - All projected sources of funding should be reviewed to insure that all sources, especially private debt and equity financing are firmly committed and are available to invest in the project.
3. No Substitution of CDBG Funds for Private Sources of Funds
 - a) The municipality shall financially underwrite the project and insure that CDBG funds are not being substituted for available private debt financing or equity capital.
 - b) In cases where no owner cash equity investment is included, the Loan Review Committee must verify the inability of the business to make an equity investment.
 - c) The review should be consistent with recognized industry standards for the type of project involved, the rates of return on equity investment and the level of risk.
 - d) Front-end analysis is critical in cases where CDBG funds are spent for “up-front” costs such as land acquisition or construction of speculative buildings. The Review Committee should insure that a significant equity commitment by the for-profit business exists and that the level of certainty of the end use of the property or project is sufficient to achieve a national objective within a reasonable period of time.

D. Establishing CDBG Financing Terms

1. The amount of CDBG assistance provided to a for-profit business should be limited to the amount, with appropriate repayment terms, sufficient to allow the project to go forward without substituting CDBG funds for available private debt or cash equity.
2. The loan should not limit CDBG funds to the extent that the success of the project is in jeopardy. However, equity funds should bear the greatest risk of all funds invested in the project.

E. Assessing Public Benefit

1. Loan review should also include an assessment of the public benefit to be derived from approving financing for the project. This assessment should include:

- a) the number and type of jobs to be created or retained;
- b) the job needs of low to moderate income persons;
- c) the extent to which a business provides essential services; and,
- d) increases the tax base.

2. The Review Committee should document those factors it considered and should include a look at the risk of the project and the effect on the public benefit if the project fails.

3. CDBG assistance must minimize business and job displacement. Each loan should be reviewed to assess the potential of causing displacement of existing businesses and jobs in the neighborhood where the project will be located. Should the review show potential displacement, it should take steps to minimize the potential for displacement.

F. The project must meet the national objective of creating or retaining jobs for low to moderate-income persons. To meet this objective, economic development activities creating or retaining jobs must show that 51% of these jobs are taken by persons of low to moderate income. To show that a project meets this standards the following documentation must be provided.

G. For Created Jobs:

1. A written commitment from the business that at least 51% of all jobs created on a full-time equivalent basis will be held by low to moderate income persons.
2. A listing, by job title, of employees at the time the application for assistance is submitted.
3. A listing, by job title, of the permanent jobs to be created as a result of the CDBG assistance.
4. Evidence supporting the estimated number of jobs to be created.
5. A listing, by job title, race, ethnicity, gender and disability status, of the permanent jobs actually created for and taken by low to moderate income persons. (this review should be conducted during the performance of the loan)

6. A description of how the low to moderate income status of those persons hired was determined. (this review should be conducted during the performance of the loan)

7. A description of how the total number of jobs created was determined. (this review should be conducted during the performance of the loan)

H. To determine if a person is of low to moderate income, the entire family income and size must be considered. To verify that each individual worker is of low to moderate income:

1. A file is maintained that includes the necessary documentation, such as the employee's income survey form, about the individual that determines low to moderate status.

2. Referrals from employment agencies that agree to refer individuals who they determine to be low to moderate income persons based on HUD's income levels and considering both family income and size. Such entities making referrals must maintain the documentation they used for verification.

3. A written certification by a person of his or her family income and size to establish low to moderate income status.

I. For Retained Jobs:

1. Jobs may be considered retained only when it can be demonstrated that, without CDBG assistance, the jobs would be lost. Retained jobs counted for the purposes of loan review are limited to the total of those jobs known to be held by low and moderate income persons at the time assistance was provided together with any other jobs that can reasonably be expected to become available through turnover to low to moderate income persons in a period of two years thereafter.

2. In case where financial assistance is being sought to retain jobs, the following documentation is required:

a) Clear and objective evidence certified by the CEO of the specific business that, in the absence of the CDBG assistance, the jobs will be lost.

b) A commitment of the business to meet the standard for retained jobs involving the employment of low and moderate income persons.

c) A listing, by job title, race, ethnicity, gender and handicapped status, of the employees at the time the assistance is provided.

d) Listing, by job title, of permanent jobs to be retained, indicating which were held by low and moderate income persons at the time the assistance was provided.

e) If applicable, identification of any of the retained jobs (other than those known to be held by low and moderate income persons) which are projected to involve the employment of low and moderate income persons through job turnover within two years of the time assistance is provided. The basis for such projections should also be included with this material (review to be performed by the grantee during the performance of the loan).

f) For jobs claimed to have been taken by low and moderate income persons based on job turnover (review to be performed by the grantee during the performance of the loan):

(1) A listing of each job which has turned over to date, indicating which of those jobs were taken by low and moderate income persons.

(2) A description demonstrating the “taken by “ standard.

(A basic requirement regarding job creation or retention is that only permanent jobs may be considered in determining benefit for low and moderate persons; temporary jobs such as construction jobs may not be considered, but would have to be converted to a full time equivalent basis for purposes of calculating the 51 percent benefit test).

IX. Financial Analysis

A. Documentation should consist of a financial analysis of the business entities’ needs using the following steps.

1. Initial Overview:

a) Project Type: There is essentially only one type of project that is eligible with Micro-Loan funds and that is where the entity seeking the assistance is also the owner/lessee and the occupant/user of the property. Typically these projects involve the construction of, or an addition to, an industrial or commercial facility, the procurement of equipment or the use of working capital. Housing projects are not an eligible use of Micro- Loan funds, but may be used in conjunction/tandem with a mixed used project in the Downtown area of each participating community.

(1) Evaluate the proposed project costs: (the use of funds to complete the project). Crosscheck costs with appropriate industry standards. The goal is to conclude that all costs are reasonable.

Cross-checking should include hard and soft costs, particularly developer's fees.

(2) Verify and Maximize Private Sources of Funding: (the sources of funds necessary to complete the project). Both private debt and equity must be verified. Verification means ascertaining that: the source of funds is committed; that the terms and conditions of the committed funds are known; and the source has the capacity to deliver. All private sources should be maximized for the given project. No CDBG funds should substitute for available private funds.

(3) Determine the Reason for the Need for CDBG Assistance to Complete the Project. There are three general, justifiable reasons for CDBG assistance:

(a) Financial Gap: The private sector can maximally raise only a portion of the debt and equity to complete the project, but the returns to the user are inadequate to motivate an "economic person" to proceed with the project. That is, project risks outweigh rewards.

(b) Rate of Return: The ROR is usually measured by the following operating ratios:

(i) Profit before taxes/ tangible networth
(expressed as a percent)

(ii) Profit before Taxes/Total Assets (expressed as a percent)

(iii) Sales/Net Fixed Assets

(iv) Sales/Total Assets

(Other important underwriting issues to consider in User Projects include officers compensation and Liquidity and Coverage ratios which help to measure a businesses' health. Liquidity is a measure of the quality and adequacy of current assets to meet current obligations as they come due. Coverage ratios measure a firm's ability to service debt.)

(c) Locational: For a Project in its most simplified version, the private sector entity is deciding between Site A and Site B for its project. The CDBG grantor wants the project at Site A; but the private entity argues that the project will cost less at Site B and will require subsidy to equalize the

costs in order to locate at Site A. The reasons for the cost differential are varied and must be evaluated on a case by case bases. Most common reasons are: on-site costs (e.g. soil conditions), prices of land (downtown vs. Suburban), distance to markets, and special off-site costs (e.g. road, sewers, etc.). The objective here is to quantify the cost differential to the extent possible between site A and B so that the financial needs of the business may be judged in relationship to the public benefit and avoid an undue enrichment of the business.

(4) Size the CDBG Assistance: Based on the needs that were identified in step c, determine the minimum amount of CDBG loan funds necessary to stimulate the private investment. This analysis will generally require a 5 to 10 year proforma for the proposed project. Ideally, the private sector applicant for CDBG funds will submit one proforma with 100 percent private financing and a second proforma with CDBG funding.

(5) Price the CDBG Loan: If the CDBG subsidy is to be a loan to a private entity, the debt service payments should balance the maximum return to the public lender with the economic health of the project. Returns to the entrepreneur in excess of industry averages should be avoided, but too high an interest rate for the CDBG assistance may weaken the project. The most direct pricing procedure is to work backwards from the proforma's cash flow dollars available to service the CDBG loan (after project expenses, private loan debt service, and an appropriate return to the private entity) to an interest rate and term that equates to the available cash flow.

b) In- Depth Review:

(1) Developmental Feasibility:

(a) A deal can be financially sound, but it may not be doable if developmental or governmental obstacles will be overcome as a matter of course. There are questions that need to be asked concerning the likely hood of a project's success. The first group of questions pertains to possible geographic and physical restrictions.

- Is the design and construction of the facility appropriate for the facility?
- Are all needed utilities available to the facility or site?

- Does the facility have sufficient transportation access for the delivery of inventory and other goods/services?

(b) A second group of questions concerns possible governmental restrictions.

- Is the land properly zoned?
- How many official and quasi-official governmental agencies need to give their approval and how long will it take?
- Does the proposed development comply with municipal ordinances?
- Is an environmental review required at the local or State level?

(2) Technical Feasibility:

(a) A determination must be made as to whether or not the operations that the business is proposing will in fact be possible from a technical standpoint. Industries or businesses that are likely to manufacture a product must be reviewed to determine whether or not their process or product is viable.

(b) Following are some of the questions that should be asked of an entrepreneur or businessperson to determine the technological merits of his/her proposed business venture:

- What key technologies and skills are required to develop and manufacture the proposed product or service?
- What problems are anticipated in developing and/or manufacturing the product or service?
- Is the product or service produced or delivered at competitive costs?

(3) Economic Feasibility:

(a) A very important aspect in making a financial analysis is to also consider the applicant's capability to manage a business. The risk associated with loaning businessperson money can be better evaluated in light of the management strengths and weaknesses. In some instances weak financial statements can be overridden by a successful history of business management. For example, the financial statements of many young firms appear weak, making the business management capabilities of the businessperson a critical variable.

(b) Analyzing the management capabilities of a businessperson is not as easy for the public sector as it might be for the private lender who often has the benefit of an established relationship to rely on. It involves assessing the following qualities of the businessperson: 1) the capability and expertise to handle the type and size of project that is being proposed; 2) the ability to anticipate, understand and solve company expansion problems, personnel problems and personal weaknesses.

(c) A businessperson's capabilities should be assessed early in the decision making process since they are an influential factor in deciding to proceed or terminate lending discussions. Therefore, at least one interview with the businessperson and a tour of the business should be in the process.

(d) In assessing the economic feasibility of a project, the following questions should be asked:

- What experience and skills does the businessperson have? How relevant are they to the project that is being proposed?
- Do the ideas sound reasonable?
- What are the strengths and weaknesses? Does the applicant know what his/her weaknesses are? How does the businessperson compensate for them?
- Does the applicant demonstrate a clear understanding of the business' needs - inventory and receivable needs - and capacity to support added debt.
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(4) Financial Feasibility:

(a) The two ways a lender expects a borrower to repay a loan are from 1) operating profits and a positive cash flow, and 2) the sale of collateral to a third party, with the sale proceeds applied against the loan balance. Lenders are much more interested in being repaid through profits and a positive cash flow or regular cash payments than through the cash value of collateral. The reason for this is that it is much easier and less expensive for the lender to be repaid in regular cash payments than to go through foreclosure proceedings.

- (i) Cash Flow - Credit analysis involves assessing the business' ability to be profitable and repay its

debts. Conducting credit analysis will assist the grantee in understanding a firm's current financial position. It must be remembered that numbers can be misleading; businessperson's management capability. The balance sheet and the profit-and-loss statement are the most important financial statements to analyze in determining a business' ability to repay a loan from profits. The importance of these statements to the decision making process will be discussed later.

(ii) Collateral

The longer the term of a loan, the more important collateral becomes because the likelihood of outside or inside influences (e.g., a business cycle downturn or error in pricing or production) affecting the profitability of the business causing default is greater. Land, buildings, or equipment, personal guarantees are considered the best security for long-term loans because its future value is easier to estimate. Appraisals are important in assessing the value of a firm's collateral (e.g., land, machinery and equipment), however, a tour of the business should also be conducted so that the grantee can assess the firm's collateral first-hand.

Before determining the financial feasibility of a deal the project costs should be accurately documented and potential problem situations should be identified. Often businesspersons have not thought through all the steps and associated costs necessary to complete a project. Therefore it is important that the grantee evaluate the proposed total project cost and project components and associated cost breakdown and compares them to the loan amount being requested.

(iii) Financial Statements

In simple terms, the profit-to-loss statements reflect the dynamic changes that occur over a specific period of time, such as a month or a year. Generally speaking profit-to-loss statements covers the overview of the company. Historic profit-to-loss statements provide the strongest indication of how well the firm will survive in the future as well as how well it has operated in the past. Therefore, they

present a “moving picture” of the business’ financial condition. More specifically, they measure costs and expenses against gross revenues over a definite period of time to show the net profit or loss of the business for the entire period. The following are some questions that should be considered in analyzing a firm’s Profit-and-Loss Statement(s):

- Are the firm’s sales growing? If not, why? If yes, how rapidly? If rapidly, can the firm continue to grow at this rapid rate without losing control of its operation?
- Is the firm profitable? If not, why? If yes, how profitable is it?
- Is the firm’s profitability consistent with industry standards? If not, why? If yes, how profitable is the firm in comparison to industry standards?
- How much are the firm’s discretionary expenses (e.g., officer salaries, rent, dividends)? Are these discretionary expenses hiding or understating expenses?

Below are some questions that should be asked in assessing the firm’s balance sheet.

- How well does the firm control its inventory?
- Does the firm collect from its customers on time?
- Does the firm pay its suppliers in a timely fashion?
- Are the owners committed to making the firm profitable or are they borrowing from it?

Other financial statements that are important to review in determining financial feasibility of a deal include Projections and Personal Financial Statements. Projections are assumptions and estimates of future financial statements, profit-and-loss statements, and balance sheets.

Projections are based on reasonable assumptions developed through 1) historical analysis of past performance and 2) knowledge of company and general economic trends and changes that are occurring in those trends. Among other things projections should show is what the firm’s future cash flow will be and whether or not debt can be repaid. Personal financial statements are the balance sheets of the owners of a business. They are an important tool in verifying a company’s

financial position, identifying hidden company liabilities and equity, as well as revealing other activities or investments that direct an owner's attention away from the firm.

(iv) Business Ratios

Financial statements show how a business has performed in the past, while ratios help provide an indication of the business' future performance. Ratios are indicators or comparative measures for spotting trends in the direction of a firm's performance. They also help compare a business' performance with the average performance of similar businesses as well as express relationships between balance sheet and profit-and-loss statement.

There are three kinds of business ratios: 1) balance sheet ratios which refer to relationships between various balance sheet items; 2) operating ratios which show the relationship between expense items; and 3) ratios that show the relationship between an item in the profit-and-loss statement and one on the balance sheet. The three most relevant business ratios are the current ratio, quick ratio and debt to equity ratio.

The current ratio, or working capital ratio, is calculated by dividing current assets by current liabilities. It shows the relative working capital position of a firm and how free from claims its current assets are. It is a crude measure of a firm's liquidity or its ability to pay its bills. A minimum ratio of 2 to 1 is considered secure and indicates a positive working capital position.

How do you intend to use your Micro-Loan? What positive impact will the loan have on your business?

Loan Amount and References

Loan Amount:

How much cash will you or your business be contributing to the proposal?

List three credit references:

Name	Address	Phone Number	Account Number

List three personal references:

Name	Address	Phone Number

Describe the qualifications, experience or training which enables you to enter this business (attach your resume if available).

Is there a co-signer for this loan?

(if yes, attach a personal balance sheet and most recent IRS tax return for co-signer)

Will there be a personal guarantee?

If not, Why?

What is your collateral?

Will other sources of funds be used for this proposal?

(if other sources, attach letters of commitment)

Is there any pending litigation, governmental proceedings or consent orders against you or your business?

(if so, attach a description)

Have you or your company ever filed bankruptcy

(if so, attach description)

Have you or your company ever been involved in a criminal proceeding?

(if so, attach description)

Do you or your company have contingent liabilities as a co-signor, endorser, guarantor, or other?

(if so, attach description)

If applicable, are City micro-loan repayments, property taxes and sewer charges current?

Please complete the following schedules:

Business Balance Sheets (Schedule 1) - please list your business' assets and liabilities. Don't duplicate data from your personal financial statement. Please submit (1) for the previous year, (1) for your current year and a projected balance sheet for each of the next (3) years.

Profit and Loss Statement (Schedule 2) - covering the previous year, and first and second year projections.

Proforma Cash Flow (Schedule 3) - covering your first and second year projections.

Personal Financial Statement (Schedule 4) - submit for all principals with greater than 20% ownership. Don't include information you will list on your business balance sheet.

Marketing or Business Plan (Schedule 5) - please complete and attach additional information if applicable to your marketing plan.

Project Budget (Schedule 6) - please itemize all project costs and identify the source of funding.

Loan Collateral (Schedule 7) - please itemize all machinery and equipment valued at **\$1,000** or more, regardless of collateral status.

LMI Job Creation Benefit Form and HUD Income Guidelines (Attached)

Certification of Intent to Meet CDBG National Benefit

A CDBG Micro-Loan fund award is contingent on meeting the national objective of creating or retaining jobs for low-to-moderate income persons. To meet this objective, 51% or more of the jobs proposed to be created or retained by this application must be taken by persons of low-to-moderate income (can include owner/principals).

I accept and understand my obligation to meet the CDBG national objective of benefit to low-to-moderate income persons as a condition of receiving this Micro-Loan/Grant. I further understand that I may be required to return the Micro-Loan/Grant if I do not meet the CDBG national objective.

Signature of Applicant: _____

Date Signed: _____

Penalty for False or Fraudulent Statements

U.S.C. Title 18, Sec. 1001, provides: “Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, or makes any false, fictitious or fraudulent statements, or makes or uses any false writing or document knowing the same contain false, fictitious or fraudulent statement or entry, shall be fined not more than \$10,000 or imprisoned not more than five years, or both.”

I warrant and represent that the information provided is true and complete. I agree to notify you promptly in writing upon any material change in the information provided herein, and further acknowledge that you will continue to regard this statement as true and complete until your receipt of such written notification. You are authorized to make such inquiries as you deem necessary and appropriate to verify the accuracy of this application.

Signature of Applicant:

Date Signed:

BALANCE SHEET

Schedule 1

Company Name: _____

Date: _____

ASSETS

CURRENT ASSETS:

Cash \$ _____
Accounts Receivable \$ _____
(net) \$ _____
Merchandise Inventory \$ _____
Supplies \$ _____
Prepaid Expenses \$ _____

Total Current Assets \$ _____

CURRENT LIABILITIES:

Accounts Payable * \$ _____
Current Portion Long \$ _____
Term Debt (due in 1 yr.) \$ _____
Other \$ _____

Total Current Liabilities \$ _____

FIXED ASSETS:

Fixtures & Leaseholds \$ _____
Improvements \$ _____
Building \$ _____
Equipment \$ _____
Trucks/ Auto \$ _____
Less accumulated depreciation on fixed assets \$ _____

Total Fixed Assets \$ _____

LONG-TERM LIABILITIES:**

Notes Payable \$ _____
Bank Loan Payable \$ _____
Other Loan Payable \$ _____

Total Long Term Liabilities \$ _____

Total Liabilities \$ _____

Net Worth (Owner's Equity) \$ _____

TOTAL ASSETS \$ _____

TOTAL LIABILITIES & NET WORTH \$ _____

*Accounts Payable

NAME OF ACCOUNT	AMOUNT
1. _____	\$ _____
2. _____	\$ _____
3. _____	\$ _____

**** Long -Term Liabilities**

NAME OF LENDER	AMOUNT
1. _____	\$ _____
2. _____	\$ _____
3. _____	\$ _____
—	

PROFIT AND LOSS STATEMENT

Schedule 2

Name:

Business:

Report Period:	Previous Twelve Months	Projected First Year	Projected Second Year
Revenue (Sales)	XXXXXXXXXXXXXXXXXX	XXXXXXXXXXXXXXXXXX	XXXXXXXXXXXXXXXXXX
Total Revenue Sales			
Cost of Sales	XXXXXXXXXXXXXXXXXX	XXXXXXXXXXXXXXXXXX	XXXXXXXXXXXXXXXXXX
Total Cost of Sales			
Gross Profit			
Expenses	XXXXXXXXXXXXXXXXXX	XXXXXXXXXXXXXXXXXX	XXXXXXXXXXXXXXXXXX
Salary Expense; Sales People Office and Other			
Payroll Expenses (taxes, etc.)			
Outside Services			
Supplies (office and operating)			
Repairs and Maintenance			
Advertising			
Car, Delivery and Travel			
Accounting and Legal			
Rent			
Telephone			
Utilities			
Taxes (real estate, etc.)			
Interest			
Depreciation			
Other Expenses (specify each)			
Miscellaneous (unspecified)			
Total expenses			
Net Profit			

FOR THE YEAR

	Beg. _____	Beg. _____
	End. _____	End. _____
A. NET INCOME (LOSS)	-	- \$ _____
	\$ _____	
ADD		
B. Itemized in Operations not Requiring Cash:		
1. Depreciation	\$ _____	\$ _____
2. Other: _____	\$ _____	\$ _____
C. Cash Provided From:		
1. Proceeds Micro-Loan	\$ _____	\$ _____
2. Proceeds from Others	\$ _____	\$ _____
3. Increase (Decrease) in Accounts Payable Accruals and other Current Liabilities	\$ _____	\$ _____
4. Decrease (Increase) in Accounts Receivable, Inventories and Other Current Assets (Exclude cash)	\$ _____	\$ _____
Other: _____	\$ _____	\$ _____
D. Total all A, B, C Items	\$ _____	\$ _____
E. Less: Cash Expended for:		
1. All construction, Equipment and New Capital Items (Loan Funds)	\$ _____	\$ _____
2. Replacement and Additions to Existing Property, Plant and Equipment	\$ _____	\$ _____
3. Principal Payment Micro-Loan	\$ _____	\$ _____
4. Principal Payment Other Loans	\$ _____	\$ _____
5. Other: _____	\$ _____	\$ _____
Total E - 1 through 5	\$ _____	\$ _____
ADD		
F. Beginning Cash Balance	\$ _____	\$ _____
G. Ending Cash Balance (Total of D minus E6 plus F)	\$ _____	\$ _____
Item G Cash Balances Composed of:		
Construction Account	\$ _____	\$ _____
Revenue Account	\$ _____	\$ _____
Debt Payment Account	\$ _____	\$ _____
O & M Account	\$ _____	\$ _____
Reserve Payment Account	\$ _____	\$ _____
Funded Account	\$ _____	\$ _____
Funded Depreciation Account	\$ _____	\$ _____
Others: _____	\$ _____	\$ _____
TOTAL - Agrees with Item G	\$ _____	\$ _____

Summary of Expenditures

		PRIVATE	OTHER	
ACTIVITY	B. LOAN	FUNDS	FUNDS	TOTAL
Working Capital				
Inventory				
Real Property Acquisition				
Relocation of Persons and/or Business				
Clearance and Demolition				
Site Improvement				
Water/Sewer Improvements				
Building Const./Rehab.				
Parking Facilities				
Capital Equipment				
Professional Fees				
Other specify				
TOTAL PROJECT COSTS				

* CLEARLY DESCRIBE THE USES OF FUNDS IN THE PROJECT. INCLUDE ITEMS TO BE PURCHASED, CURRENT CONTRACTOR AND SUPPLIER ESTIMATES, INVENTORY TO BE ACQUIRED, WORKING CAPITAL TO BE EXPENDED, ETC. IDENTIFY SPECIFICALLY THE USE OF MICRO-LOAN MONIES.

IMPORTANT: PLEASE READ CAREFULLY

This statement is being submitted in conjunction with a request for an extension of business credit to: (business name)

If you are relying solely on your income or assets in compiling this Statement to support any assets of the requested credit, including any guarantee, endorsement or other security, COMPLETE SECTIONS A AND C ONLY; If you are relying, in whole or in part, on the income or assets of another person, complete ALL SECTIONS, and furnish the requested information about the other person in Section B. If you are completing all sections, indicate in Section C, where applicable, the income and/or asset ownership interests of the other person upon whom you are relying.

SECTION A

Name:	_____	Employer's Name:	_____
Address:	_____	Employer's Address:	_____
Telephone:	_____	Title or Position:	_____
SS#	_____	Business Telephone:	_____

SECTION B

Name:	_____	Employer's Name:	_____
Address:	_____	Employer's Address:	_____
Telephone:	_____	Title or Position:	_____
SS#	_____	Business Telephone:	_____

SECTION C: Financial Information

ASSETS:		LIABILITIES:	
Cash on Hand and on deposit	_____	Notes due w/I 1 yr.	_____
Marketable Securities	_____	Real Estate Mortgages	_____
Cash value life insurance	_____	Installment	_____
Notes receivable	_____	Other	_____
Other current assets	_____	Accounts Payable	_____
(itemize)	_____	Taxes due or accrued	_____
	_____	other current liabilities	_____
	_____	(itemize)	_____
	_____		_____
TOTAL CURRENT ASSETS	_____	TOTAL CURRENT LIABILITIES	_____

Personal Financial Statement - Schedule 4 (Page 2)

Real Estate	_____	Notes due after 1 yr.	_____
Personal Property	_____	Real Estate Mortgages	_____
Notes or mortgages receivable	_____	Installment debt	_____
Investment in related companies	_____	Other debt (itemize)	_____
Other investments	_____		_____
Other assets (itemize)	_____		_____
TOTAL ASSETS	_____	TOTAL Liabilities & Net worth	_____

BANK DEPOSITS

List all bank accounts, including savings accounts.

Name and Location of Bank	Cash Balance	Amount of Loan	How is Loan Secured?

MARKETABLE SECURITIES

Description of Security (bonds, stocks, etc.)	If pledged - to whom	Present Market Value	Present Loan Value	Payment Terms and Amount

LIFE INSURANCE

List all policies in which you are named as insured.

Beneficiary	Company	Type of Policy	Face Amount	Cash Surrender Value	Loans against Policy	If Assigned to Whom

REAL ESTATE

Description & Address	Title in Name Of?	If Mortgaged. To Whom?	Present Value	Present Mortgage Balance	Payment Terms and Amount

PERSONAL FINANCIAL STATEMENT - Schedule 4 (Page 3)

PERSONAL PROPERTY, EQUIPMENT, MOTOR VEHICLES, ETC.

Description	If Mortgaged, to Whom?	Present Value	Present Loan Value	Payment Terms and Amount

NOTES PAYABLE (Not shown above)

Lender	Security (if any)	Present Value	Present Loan Balance	Payment Terms and Amount

ACCOUNTS PAYABLE

Four Largest Creditors	Amount	Related Companies

