

CITY OF BATTLE CREEK
DIRECT INVESTMENT FUND PROGRAM PARAMETERS

OVERVIEW:

The Direct Investment Fund (DIF) loan program is a gap financing measure primarily used for development and expansion of small businesses. It is a self-replenishing revolving loan fund, utilizing interest and principal payments on existing loans to issue new ones. The DIF objective is to provide access to a flexible source of capital that can generally be used in combination with more conventional sources. Often the DIF is a bridge between the amount the borrower can obtain in the private market and the amount needed to start, grow or sustain a business.

DIF loans should be based on sound lending criteria and not perceived as free or easy sources of financing. The DIF must be able to generate an acceptable level of return to replenish the fund for future loan allocations. With competitive rates and flexible terms, DIF provides access to new financing sources for the borrower, while lowering overall risk for participating institutional lenders. This overview is intended to ensure loans meet the purpose of the DIF and provide for standard due diligence during the application and loan servicing periods.

APPLICATION PROCESS:

Applicants are generally eligible to apply for loans provided they have no outstanding delinquent debt or taxes to any private financing source or to the Federal, State or Local Government. While the DIF takes on projects with above average risk, borrowers are held to standard financial requirements and loan security. Before an application is received, a business or prospective business is required to meet and demonstrate the program eligibility requirements as listed below. Once basic application eligibility requirements have been demonstrated and the potential borrower is aware of how the DIF determines loan terms and interest rates, the applicant must complete and submit an application.

APPLICATION DOCUMENTS:

- a) Completed loan application with payment of a \$250.00 non-refundable application fee
- b) Completed business plan with three years of projections
- c) Commitment letters from other participating lending sources (if applicable)
- d) Personal financial statements of owners/co-owners
- e) Last three years of personal tax returns
- f) Existing businesses – financial statements including a balance sheet and income statement for the last 3 years in addition to the last 3 years of business tax returns.
- g) The applicant should be prepared to supply any additional information including personal financial information that may be requested during the review process.
- h) Applications that do not contain all of the required information will be accepted for internal review, however, no formal action by the DIF Committee will be made until all requested information has been provided.

LOAN PROGRAM REQUIREMENTS:

- a) The business plan must demonstrate steady cash flow and the ability to support loan payments
- b) Must not have declared personal or business bankruptcy in the last 5 years
- c) Must have sufficient collateral to support the loan
- d) May be required to provide an acceptable appraisal for real estate and/or equipment
- e) All loans will require the personal guaranty of the primary owner/co-owners
- f) Guarantors must have a minimum credit score of 600
- g) May have to provide an additional outside guarantor if needed
- h) Owners/co-owners, or guarantors may be required to provide key person insurance

- i) All loans will require adequate insurance coverage to be maintained during the term of the loan
- j) Must provide annual financial statements, personal financial statements and tax returns during the time the borrower has outstanding debt with the DIF. Financial statements may be borrower prepared or compiled, reviewed or audited by certified public accountant (to be determined prior to loan closing).

BASIC ELIGIBILITY REQUIREMENTS:

- a) Applicant must be located within the City of Battle Creek
- b) Applicant must be unable to obtain sufficient or adequate credit elsewhere
- c) Applicant must be a for-profit corporation, partnership, limited liability company or sole proprietorship

ELIGIBLE PROJECTS/USE OF LOAN PROCEEDS FUNDS:

- a) Provide support for private sector financing sources or to fill a gap in financing availability
- b) Provide business working capital
- c) Purchase of inventory
- d) Purchase machinery, equipment, furniture or fixtures
- e) Purchase of real estate to be used for the location of the subject business
- f) Commercial renovations and leasehold improvements for owner occupied facilities
- g) Business acquisition

FUNDING IS NOT AVAILABLE FOR:

- a) Projects that are located outside of the Battle Creek city limits
- b) Projects that do not create permanent jobs
- c) Subsidy of interest payment on existing loans
- d) Refinancing of existing debt
- e) Non-business expenses
- f) Routine maintenance
- g) Residential building construction
- h) Non-owner occupied investment real estate

INELIGIBLE BUSINESSES/ORGANIZATIONS:

- a) Gambling activities including any business whose principal activity is gambling
- b) Adult bookstores or adult/companion escort or entertainment services
- c) Night clubs and bars without food services
- d) Businesses not directly benefiting the City of Battle Creek
- e) Real estate investment speculation
- f) Pawn shops, swap and buy shop, or online auctions
- g) Not for profit organizations churches, fraternal or service organizations

CREDIT ELSEWHERE EVIDENCE:

The DIF objective is to provide financing support to borrowers that cannot obtain business funding at affordable rates and acceptable terms. Borrowers may be subject to a “credit elsewhere” test to demonstrate evidence the applicant has sought credit elsewhere.

DETERMINATION OF LOAN AMOUNT:

The DIF will focus on loans up to (\$750,000 in the EDF and \$250,000 in the DDA) with loan amounts to be determined in part on number of new jobs created or retained and the quality, skill level and compensation of the jobs. The ability of the business to meet debt service payments, and the reasonableness of the costs to be paid for by the loan are also factors taken into consideration.

DETERMINATION OF LOAN TERM:

The loan term is tied directly to the assets being funded and the security being pledged for the loan. A loan's maturity should take into consideration the use of proceeds, the useful life of the assets being financed, and the borrowers' ability to repay the loan. When senior lender loans are involved the DIF commitment will not be on a longer term than that of the senior lender.

Typical loan maturities and amortization terms are as follows:

3 years or less for working capital

5 years or less for equipment with amortization up to 7 years

5 years or less for real estate with amortizations periods ranging from 10 to 20 years

DETERMINATION OF LOAN INTEREST RATE:

The loans may have a fixed or variable rate which will be determined based on the underwriting risk analysis along with consideration of the following factors:

- Amount of equity capital being contributed to the project
- Ability of business to service the loan
- Credit risk factors and management experience will also be considered
- Community Impact