

# AMENDED

## MICROLOAN PROGRAM DESCRIPTION

Studies have shown that one of the primary causes of business failure is under capitalization. This is especially true for new businesses which need working capital to meet operating expenses until their business becomes established. It is the purpose of the loan program to provide start up and newly formed small businesses known as micro-enterprises with financial assistance to supplement their working capital in order that they may succeed.

It is required that all loan recipients receive counseling from SBDC, Inc. as a prerequisite to funding. In the majority of cases, a counseling session with SBDC, Inc. will result in a recommendation for further coach and training. This coaching will help develop and enhance the entrepreneurial skills of the business. SBDC, Inc. counselors will consider each business' training and coaching needs on a case-by-case basis.

After the loans are made, SBDC, Inc. will continue to assist the recipient to better the success of their business.

## MICRO-ENTERPRISE LOAN PROGRAM

A pool of \$125,000 will be used to further fund this Revolving Loan Program.

### Loan Guidelines

|             |  |
|-------------|--|
| Amount      | -Direct Loans of \$500 to \$10,000.  |
| Term        | - Up to 48 months  |
| Rate        | - No less than 1.5%. No more than 4% over prime at time of loan closing. To be fixed for term. |
| Fee         | - \$50 non-refundable applications fee.  |
| Late Charge | - 5% of loan payment amount not received within eight days of due date.                        |

### Repayment Terms

Terms of repayment will be reviewed and tailored to the borrower's ability. Most loans will have conventional fixed monthly principal and interest payments. However, certain circumstances will require more lenient and flexible terms to match the borrower's cash flow more nearly. It is the intent in these situations to establish a repayment plan which the borrower can realistically achieve while at the same time does not jeopardize the lender's position. Examples of non-conventional repayment plans are:

- Moratorium of payments of interest and/or principal in the early stages of the loan.
- Step-up payments over the term of the loan
- Minimum payments versus a percentage of sales

- Repayment based upon seasonality of business

### **Eligibility and Qualifications**

In Order to be eligible and qualify for the loan program, individuals and businesses must:

- Be located within City limits or on property owned by the City.
- Be a for profit business
- Be a start-up or in business less than 5 years
- Not have more than 10 employees including the owner at the time of the loan (i.e., be a micro-enterprise)
- Present a business plan demonstrating:
  - Sound business purpose and eligible business activity
  - Feasibility of business
  - Repayment ability
- Show skills and capabilities of management of the business.
- Have satisfactory business and personal credit experience
- Demonstrate access to such resources (financial and other) as may be required to carry out the business plan. It is pointed out that the purpose of the loan program is to provide financial assistance to supplement the resources which a business has for it to succeed.

### **Preference**

Whereas any eligible business may apply for loans, preference will be given to:

- Businesses that have received training and/or technical assistance from SBDC in setting up their business.
- Businesses that show growth potential and ability to add additional employees in the future.
- Minority- and female-owned businesses. The goal during any program year is to provide the majority of all loans to minority- and female-owned businesses.

### **Eligible Activities (use of funds)**

Any sound legitimate business purpose except those activities deemed to be ineligible. May be used in conjunction with other loan programs where eligible.

### **Ineligible Activities (Uses of Funds)**

- Speculative purposes such as land banking
- Borrower's contribution of project cost, i.e., down payment or equity requirement in other federal, state, local or conventional loans.
- Personal loans
- Debt consolidation or refinance of debt of any nature
- Purpose of construction or rehabilitation of property for resale or lease
- Political or lobbying activities
- Activity or project that those benefits are deemed to be more of personal nature than a business purpose

- Loans to SBDC officers, directors and staff or City of Springfield staff and employees or other such conflicts of interest situations.
- Pyramid sales businesses
- Franchises that do not meet SBA approval standards

### **Security/ Collateral**

- Adequate security for the loan is expected because of the inherent risk in lending to start-up and newly formed businesses. Liens on business assets (inventory, receivable, fixed assets, cash, and cash equivalents) will be pledged as collateral in the normal course of these loans. Other collateral owned by the borrower or pledged by third parties will also be considered. Occasionally, collateral will be pledged not so much for its intrinsic value, but for its emotional value, to assure a borrower's commitment to the loans.

In all Cases, personal signatures of the borrower/owner will be required. Co-signers may be requested in certain circumstances where an individual's credit and/or collateral is deemed to be inadequate.

### **Applicable Regulation**

- No loans can be made that will adversely affect the environment, air and water quality, food plains, wetlands or projects listed on EPA's list of violating facilities. Compliance is required for historical properties, civil rights, American Disabilities Act, relocation regulations for jobs or persons.
- All activities using loan funds and administrative service fees shall be conducted in accordance with applicable federal, state, and local laws and regulations.

### **Administrative Guidelines**

The Program will be administered by Springfield Financial Group (SFG), a division of SBDC, Inc.

- This will be a revolving loan program. As loans are repaid, the principal will be placed back into the fund to be re-loaned.
- Because of the inherent risk involved with this type of lending, it is anticipated that the loss rate and administrative expenses will be greater than that of the current loan programs (RLF and TIL) administer by SFG.
- SBDC, Inc. will have full authority and responsibility for the administration of the loan program in accordance with the established guidelines. Approval of all loan and their administration shall rest with the SBDC Board of Trustees. However, the Board shall have the right to delegate such authority and responsibilities to its Loan Program Manager on such conditions as it deems appropriate, It is expected that all completed loan application will be processed in a timely manner and that barring unforeseen problems should be processed within fifteen (15) working days.
- For its compensation for administering the fund, SBDC shall be entitled to all fees, late charges, and interest earned on any loans made.

- In the event of default on any loan, SBDC will exercise such efforts and remedies available, including legal actions, to collect on loans. Any amount recovered shall be applied to reimbursement collections efforts and any balance shall be returned to the fund.
- SBDC shall provide the City of Springfield with periodic reports like those currently being provided under the City's RLF and TIL programs.