

PHILLIPS AREA MICRO-LOAN PROGRAM GUIDELINES

I. OBJECTIVE

The purpose of the Phillips Area Micro-Loan Program is to provide affordable financing to new and existing business in the towns of Phillips, Avon and the Unorganized Territory of Madrid in order to create or retain jobs for low/moderate income citizens.

II. ADMINISTRATION

- A. The Town of Phillips (the “Municipality”), having received the Micro-Loan funds from the state will be held solely responsible for the administration of the Micro-Loan Program. If the municipality elects to have an agent manage the Micro-Loan Program on their behalf, whether that agent be an individual or firm, the municipality remains responsible for administration of the Program.
- B. A Phillips Area Micro-Loan Review Committee shall be established to develop and oversee policy and procedural requirements of the program including the adoption of Micro-Loan Program Guidelines . This Committee will also be responsible for securing all necessary documentation and performing the required financial review and analysis of the application. The Committee will execute the loans and monitor the business for adherence to the guidelines. Member of this committee shall be appointed for a term of one year by the Selectmen in their respective towns (and by the Franklin County Commissioners in the case of Madrid). Membership shall be at least 5 but not more than 9 voting members. The Town Manager and a Community Development Director may participate in an Ex-Officio, non-voting capacity. A minimum of three committee members must vote to constitute a quorum. All votes must be recorded.

III. LENDING CRITERIA

- A. Applicant: Applicants for Micro-Loan funds must be the owner, partner, chief executive officer or have power of attorney to apply for financing.
- B. Location: Businesses eligible for Micro-Loan funds must be located within the boundaries of the municipalities of Phillips, Avon or Madrid.
- C. Eligible activities: Micro-Loan application must be for activities eligible under federal, state and local regulations. Types of activities that can be financed with Micro-Loan funds include but are not limited to:
 - 1. Real property acquisition which is essential to operation of business;
 - 2. Capital equipment
 - 3. Building construction and/or rehabilitation (except housing related projects);
 - 4. On-site utilities;
 - 5. Inventories;
 - 6. Working capital; and
 - 7. Relocation of persons or businesses as a result of property acquisition or facility expansion

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- D. Need for financing: Each application will be reviewed to determine that financing is necessary in order for the project to be viable. The analysis must also assure that the Micro-Loan is not unduly enriching a business nor simply replacing other available financing. In addition, the analysis should also support the amount of financing in relation to the public benefit that will be obtained from the project.
- E. Amount of financing/terms: Loans can be a minimum of \$2,500 and a maximum of \$25,000. Interest rates will be fixed and below market. The term will not exceed 15 years. A monthly amortization schedule will be required unless another appropriate method is deemed suitable by the committee.
- F. Job Creation and Retention: Priority will be give to businesses that create or retain jobs, especially for low and moderate income residents of the towns.
- G. Amount of Financing per Job Created/Retained: Priority will be given to businesses that create or retain more low/moderate income jobs as the loan amounts increase.
- H. Collateral Requirements: All loans that are executed using Micro-Loan funds must be adequately secured with sufficient collateral. Collateral may be in assets that have enough equity value to match the loan. If a loan is made for working capital, the Phillips Area Micro-Loan Program will hold mortgages on whatever the company has that is used as collateral for the loan. If improvements are made to a building or if a building or equipment is purchased with Micro-Loan funds, the Phillips Area Micro-Loan Program will hold and file a mortgage with the Franklin County Registry of Deeds for the length of the note. Micro-Loan funds can be subordinate to bank financing and/or, with Loan Review Committee approval, be deferred for a short period of time. Real estate is the preferred collateral followed by equipment used in the business.
- I. Application costs: Any costs incurred by the applicant in preparing documentation or the application for the Micro-Loan Program will be borne by the applicant. In addition, those costs associated with legal document preparation, review, recordings, filings, and closing documents shall also be borne by the applicant.
- J. Penalties: In the event that a loan payment is 15 days in arrears, a late payment charge of 5 percent of the loan payment will be added.

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IV. LOAN APPLICATION

The Micro-Loan Application, in addition to requesting information required to assess job creation/retention, necessary and appropriate public benefit, etc. requires applicants to submit the following documents:

- A. Balance Sheets: Both historical and projected for the current year and the next two years.
- B. Profit and Loss Statements: Both historical and projected for the current year and the next two years.
- C. Pro-forma Cash Flow for two years. Cash flow must show the expected monthly income and monthly expenses in detail.
- D. Current Balance Sheet and Profit and Loss Statement (not over 90 days old).
- E. Current financial statements of principals with greater than 20% ownership existing or proposed.
- F. Credit Report(s) obtained by the applicant from any of the three major credit agencies. Such report(s) must include all parties to the proposed loan.
- G. Information about the form of ownership.
- H. Resumes of principals and/or management.
- I. Business Plan. It is strongly recommended that the applicant work with a professional service such as AVCOG in the plan development and financial report preparation.
- J. Project budget.
- K. Existing and Proposed obligations of the business.
- L. Equity commitment letter.
- M. Federal tax returns (two prior years) for all parties to the proposed loan. Personal and corporate if applicable.
- N. Loan Collateral form and applicable documentation that substantiates the fair market value of such collateral. Passenger vehicles, ATVs, snowmobiles, motorcycles and similar vehicles may not be used as collateral
- O. Documentation showing ownership of property or anticipate real property conveyances such as sales agreement, purchase options or lease agreements.

V. LOAN APPLICATION PROCESS

- A. Loan applications for the Micro-Loan Program will be evaluated on a first come, first served basis. Decisions on loans should be made within 30 days from the date a complete loan application package is received.
- B. Applications for Micro-Loan financing will be reviewed by the Loan Review Committee according to the Lending Criteria, the Review Process, and other requirements set forth in these guidelines.

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- C. Upon final review of the application, the Loan Review Committee must put the application to a vote.
- D. After a loan application has been approved, a written Loan Agreement will be developed. The Loan Agreement will clearly state all of the terms of the loan, including any specific conditions that may be required. The Loan Agreement will be signed by a duly authorized municipal representative and the applicant once all details of the agreement have been agreed to by both parties. All applicable fees are the responsibility of the applicant.
- E. An unsuccessful applicant for a loan may request a review from the Loan Review Committee based on errors of fact or procedure. Such a review may not be based on judgements concerning the feasibility of the proposed project or credit worthiness of the applicant.

VI. REVIEW PROCESS

The Micro-Loan Review Committee will perform an in-depth review of all business loans for eligibility, national objectives, and financial analysis. The borrower may be requested to supply additional material in the course of the review.

- A. Eligibility: The Micro-Loan assistance must be "appropriate" to carry out the economic development project. The Micro-Loan Review Committee must ensure that the following elements are included in each determination of "appropriate":
 1. Proposals will be reviewed to determine that each project cost element is reasonable and consistent with third-party, fair-market prices.
 2. The Committee will review, when applicable, all projected sources of funds necessary to complete the project and verify that all sources have been firmly committed and are available to be invested in the project.
 3. The program will financially underwrite the project and ensure that funds are not being substituted for available private debt financing or equity capital. The analysis will be tailored to the type of project being assisted. The analysis will determine the need for financial assistance, the amount of financial assistance needed and the likelihood of a project's success. The reviews will be consistent with generally recognized industry standards of the type of project involved, the rates of return on equity investment and level of risk.
 4. The financing terms provided to a for-profit business will be limited to the amount sufficient to allow the project to move forward without substituting Micro-Loan funds for available private debt or cash equity. The repayment terms will be structured so that the business is allowed a reasonable rate of return on invested equity, considering the level of risk of the project, but will not be limited to the point of jeopardizing the chances of success of the project. The review will demonstrate the basis for the term of the loan, the rate of the loan and other special financing terms granted which, in the judgement of the Committee, are appropriate for financing the project.
 5. The extent of public benefit expected to be derived from the project will be assessed considering such factors as the number and type of jobs to be created or retained, in relation

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to the needs of low-moderate income and other persons who are likely to be employed, the extent to which a business provides essential services to low and moderate income neighborhoods, provides revenue or income opportunities for residents and increases the tax base.

6. Displacement: As a part of the review, an assessment should be made on the potential of each proposed economic development project for causing displacement of existing businesses and lost jobs in the neighborhood where the project is proposed to be located. When the Committee concludes that the potential exists to cause displacement given the size, scope or nature of the business, then the Committee must, to the extent practicable, take steps to minimize such displacement.

B. Financial Analysis

1. Initial Overview

- i. Project Type: The entity seeking assistance must be 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.
- ii. Evaluate the Proposed Project Costs: All hard and soft project costs will be cross-checked with appropriate industry standards. The goal is to conclude that all costs are reasonable.
- iii. Verify and Maximize Private Sources of funding: Both private debt and equity will be verified to ascertain 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. No Micro-Loan funds will substitute for available private funds.
- iv. Determine the Reason for the Need for Assistance to Complete the Project: There are three general, justifiable reasons for assistance:
 1. Financing Gap: The private sector can raise only a portion of the funds required to complete the project; returns to the user are inadequate to motivate an “economic person” to proceed with the project.
 2. Rate of Return: The ROR will be measured using the following operating ratios: profit before taxes / tangible net worth, profit before taxes / total assets, sales / net fixed assets, and sales / total assets.
 3. Locational: The objective here is to quantify the cost differential between two arguable sites for an economic development project 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.
- v. Size of the Assistance: Based on the needs that have been identified, a determination will be made of the minimum amount of funds necessary to stimulate the private investment. Debt service payments will be determined to balance the maximum return to the public lender with the economic health of the project.

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2. In-Depth Review

A Business Plan from the applicant is required.

- i. Development Feasibility: A deal can be financially sound but it may not be doable based on development or governmental obstacles. The following questions must be asked concerning the likelihood of a project's success:
 1. Is the design and construction of the facility appropriate for the facility?
 2. Are all needed utilities available to the facility or site?
 3. Does the facility have sufficient transportation access for the delivery of inventory and other goods/services?
 4. Is the land properly zoned?
 5. How many official and quasi-official governmental agencies need to give their approval and how long will it take?
 6. Does the proposed development comply with municipal ordinances?
 7. Is an environmental review required at the local or state level?
- ii. Technical Feasibility: 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.
 1. What key technologies and skills are required to develop and manufacture the proposed product or service?
 2. What problems are anticipated in developing and/or manufacturing the product or service?
 3. Does the product or service do what the entrepreneur or businessperson thinks it does?
 4. Can the project or service be produced or delivered at competitive costs?
- iii. Economic Feasibility: The businessperson applying for Micro-Loan funds will be evaluated in light of his/her management strengths and weaknesses. The review process will involve assessing the following qualities of the businessperson:
 1. The capability and expertise to handle the type and size of the project that is being proposed.
 2. The ability to anticipate, understand and solve company expansion problems, personnel problems and personal weaknesses.
- iv. Financial Feasibility: 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. All projects will be reviewed for financial feasibility to ensure the capacity to repay the debt from cash flow, however, all loans will be fully covered with collateral. Financial statements and business ratios will be analyzed to determine a business' profitability,

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evaluate its past performance and provide an indication of the business' future performance.

- v. In evaluating and assessing the technical and/or financial worthiness of a business, the Micro-Loan Review Committee and staff will seek the assistance of outside experts as needed on a pro-bono or contractual basis. Such resources may include university or industry personnel, agency staff such as Franklin County Economic Development Office, Small Business Development Center, Androscoggin Valley Council of Governments (AVCOG), or service organizations such as Service Corps of Retired Executives (SCORE).

VII. LOAN EXECUTION

Upon execution of a loan, the following documents will be secured as a minimum:

- Micro-Loan Agreement
- Corporate Guarantee if applicable
- Promissory Note
- Mortgage Deed
- Security Agreement
- Right of Recession (if applicable)
- Truth in Lending Disclosure Statement

VIII. TERMS AND CONDITIONS

- A. Civil Rights: The Town and applicant will be required to comply with Title VI of the Civil Rights Act of 1964 and 1968, to no discriminate upon the basis of race, color, creed, religion, national origin, handicap, age or family status.
- B. Use of Funds: All funds made available by the Program shall be used only as planned and identified in the application.
- C. Conflict of Interest: The operation and administration of this program shall comply with all applicable local, state and federal requirements regarding conflict of interest. No person who is an employee, agent, consultant, officer, or elected or appointed official of state or local government or any designated public agencies, or sub-recipients which are receiving Micro-Loan funding may obtain a financial interest from the activity, or have an interest in any contract, subcontract or agreement which respect to these program activities.
- D. Bonus, Commissions, Fees, Kickbacks: It shall be strictly prohibited from any person having any connection with this program to use their knowledge, position or influent to secure any kind of a bonus, commission, finder's fee or kickback.

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IX. CITIZEN COMPLAINT PROCEDURE

The following process will be followed in the cases of all complaints regarding the administration of the Micro-Loan Program.

- A. Following a written complaint to the Phillips Area Micro-Loan Program Committee, a written response shall be given to the complainant within 10 working days of the receipt of the complaint. In cases where the complaint is verbal, the complainant will be told to submit the complaint in written form and the staff shall respond within the 10 day time period mentioned above.
- B. If the complainant deems that the response is not satisfactory in nature, the complainant shall be notified in writing by the staff to submit the complaint in written format to the Selectman of the resident's or business location's town (a Franklin County Commissioner for Madrid). The Selectman/Commissioner will confer with the Review Committee and issue a written response within 10 working days of the receipt of the complaint.

X. EXTENUATING CIRCUMSTANCES

In the event of extenuating circumstances, the Phillips Area Micro-Loan Committee may waive any section of these guidelines that does not conflict with local, state or federal laws and regulations, when it is deemed to be in the best interest of the program to do so.