



# Hibbing Economic Development Authority Loan Program Guidelines

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## **PROGRAM PURPOSE AND TERMS**

The City of Hibbing, through the Hibbing Economic Development Authority (HEDA), maintains a revolving loan fund for the specific purpose of providing below market rate financing to support the following business financing projects:

1. Investment in commercial/industrial building renovations, primarily in the downtown area;
  - Physically enhance or improve the exterior or interior appearance of their structure
  - Improve energy efficiency
  - Conform to all City Codes, including Building Maintenance and Fire Safety/Prevention
  - Provide or enhance Handicap accessibility
  - Invest in our communityAll work shall conform to City Code(s) and City Policies for Building Permits and other requirements, including the use of licensed, insured contractors.
2. Provide financial support to start-up businesses, business expansions, business retention and business acquisition projects. Financing will be provided to support the purchase or improvement of commercial/industrial real estate, equipment purchases and working capital. This financing would typically be provided in conjunction with and would be subordinate to the traditional lenders.

This below market rate financing for the above-mentioned project types is to assist eligible Hibbing Businesses to create or retain tax base and jobs in our community. Any loan provided by the HEDA board to a local business that is over \$75,000 but, less than \$150,000 will be declared a business subsidy through a business subsidy agreement between the HEDA board and the borrower. Any loan that is \$150,000 or greater will also require a public hearing on the declared subsidy in addition to the agreement.

## **FINANCING POLICIES AND CRITERIA**

- **LOAN AMOUNTS:**  
The maximum amount for this loan program will vary by project and is subject to availability of funds within the program. Loan amounts would typically be 33% or less of total project financing to meet loan leveraging requirements.
- **TERM OF LOANS:**  
Maximum terms in years:

Working Capital	5 years
Equipment	5-10 years, depending on the life of the equipment
Real Estate	10 years

For any combination of the above uses in one loan, the maximum term is negotiable by the HEDA Board.

- **INTEREST RATE:** Guaranteed and fixed for the term of the loan. Rates are determined based on project risk and economic conditions.



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- **ELIGIBLE BORROWERS:** Owners, tenants, or operators of businesses within the City of Hibbing. As the ultimate beneficiary of improvements, the owner of record shall consent to the work and provide collateral or a personal guarantee for payment. Applicants may be legally organized in any manner permitted by the laws of the State of Minnesota. Loan applicants to be assisted must be a for-profit entity or a non-profit entity that can demonstrate jobs and other economic impact, such as investment in real estate and product or service sales, in the community of Hibbing. Applicants may not apply for more than one loan in a twelve-month period. Repeat applicants' requests will be looked at in aggregate and may require additional information to be considered.
- **INELIGIBLE BORROWERS:** The following types of businesses would normally be ineligible for assistance under the program: speculative real estate, media, casino & sports facility, and any others prohibited by law.
- **ELIGIBLE USE OF LOAN PROCEEDS:**
  - a. land and building acquisition
  - b. land improvements
  - c. new building construction
  - d. building renovation
  - e. machinery purchase/equipment
  - f. inventory purchase

HEDA loan proceeds cannot be used for debt refinancing.

- **EQUITY AND COLLATERAL:** Loan applicants must demonstrate an acceptable level of project equity as determined by the HEDA Board. Typically, new businesses will require more equity than established businesses. Additionally, the HEDA Board may ask start-up businesses or those who are under-collateralized to sign a personal guarantee.

Collateral must be acceptable as determined by the HEDA Board. Loan Fund collateral coverage ratio standard shall be 1.5 to 1. A minimum of 1 to 1 of collateral coverage will be established, however exceptions can be made with HEDA Board approval. Collateral positions will typically be subordinate to private sector lenders.

- **PRIVATE SECTOR LEVERAGE:** The ratio of private sector investment dollars to be leveraged by HEDA Loan Fund will be a minimum of 2 to 1 private to HEDA financing.
- **JOB COST RATIO:** The minimum Job/Cost Ratio will be \$50,000 per job created or retained. These are direct jobs only; part-time jobs should be summed to full-time equivalents and jobs should only be counted as saved when there is sufficient evidence that without the loan they would have been lost. This may be negotiated by the HEDA Board if other economic development factors are met by the project.
- **LOAN CONCENTRATION LIMITS:**

Loans to a single borrower and/or its affiliates or to the same industry shall be considered a concentration risk if the loan balances are 10% or more of the loan fund total capitalization. In situations where a loan request will result in a concentration, more than 10%, additional loan credit scrutiny will be required.



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The HEDA board prefers to be 1/2 or less of the overall lending for the entire project and equal to or less than other lenders participating in the financing of the project. This ensures that the below market rate lending provided by the HEDA board does not compete with local lending institutions and is used for financing funding gaps.

For any combination of sources and uses in a project, the maximum lending amount is negotiable by the HEDA Board and taken up on a project-by-project basis.

- **PERSONAL LIFE INSURANCE CONSIDERATION:**

If the project is dependent upon the efforts and talents of a single owner, or, if the requested loan is deemed substantial and the debt will be subordinated, or if the liquidation value of the collateral is deemed to make it hard for HEDA to collect the remaining balance of the loan, the HEDA Board may require the project to obtain a life insurance policy for the principal amount and name HEDA as the insured.

**Any deviation from these financing policies and criteria can be considered by HEDA as an exception to policy.**

## **LOAN APPROVAL PROCESS**

### **FULL APPLICATION**

Applicants must submit the complete application and required materials to HEDA. HEDA will administer and process all loans and loan applications. Once a full application has been authorized, the HEDA Executive Director will discuss with the business the full details of the application preparation. The full application includes a list of items and exhibits required of HEDA loan applicants.

**The exhibit checklist of information is as follows:**

- **EXHIBIT 1: History and Description of Business.** The history and description of the business should be one or two pages describing the company, operation and product line, history, principals, market and competition, affiliates, legal structure and employment. Keep this exhibit simple and restrict it to the basics.
- **EXHIBIT 2: Marketing Plan.** Provide a detailed marketing strategy including:
  - a. Target Market
  - b. Competition
  - c. Pricing
  - d. Distribution
  - e. Advertising
  - f. Sales Promotion
- **EXHIBIT 3: Detailed use of Proceeds.** Describe in detail how the total project amount will be used. All funds requested or provided must be shown here. Written cost estimates must accompany this exhibit. Debt refinancing is prohibited.
- **EXHIBIT 4: Impact on Community/Area.** Describe how the proposed financing will benefit the community or area in which the business is located. In addition, estimates of annual payroll, local purchases, and other economic impacts should be included here. A complete list of all jobs created and/or retained.



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- EXHIBIT 5: Commitment Letters. A firm commitment from the participating bank stating the terms and conditions of its participation, signed by an officer of the bank. Also, commitment letters from all other funding sources must be included. In lieu of this commitment letter, the loan may be approved contingent upon the borrower securing other lending.
- EXHIBIT 6: List of Collateral. A detailed list of all collateral offered, its value, and security position by funding sources.
- EXHIBIT 7: Resumes and Personal Financial Statements. Resumes of all principals and key management personnel as well as current, dated, and signed personal financial statements and income taxes on all principals with significant financial interest in this business for the past three years.
- EXHIBIT 8: Business Financial Statements. Applicant(s) must provide balance sheets and income statements for past three fiscal years. If business has been in existence for less than three years, provide as many as possible.
- EXHIBIT 9: Interim Financial Statements. Applicant must provide a balance sheet and income statements less than 90 days old, as well as a separate detailed list which contains current obligations.
- EXHIBIT 10: Schedule of Business Debts. This list will include original amount and date, present balance owed, interest rate, monthly payments, maturity, and indicate whether the loan is current or delinquent. All obligations must be consistent with interim balance sheet.
- EXHIBIT 11: Projections. All projections will cover a minimum of two complete fiscal years. Two (2) years proforma balance sheets. Two (2) years projected income statements. Two (2) years projected cash flow (monthly and annually).
- EXHIBIT 12: Affiliates. Description of any affiliates or subsidiaries of business or principal(s) requesting assistance, as well as balance sheets and income statements for past two fiscal years on such affiliates or subsidiaries.
- EXHIBIT 13: Appraisals/Proposed Lease/Purchase Options or Agreements. If HEDA is first secured on the real estate, an independent appraisal will be required for any real estate which is a subject of the proposed financing, or which is offered as a major source of collateral to secure the loan. Otherwise, if HEDA is a subordinate lender, the borrower may provide a copy of the lead lender's valuation write-up. Also include copies of existing or proposed lease, purchase options or agreements, or other financial arrangements.
- EXHIBIT 14: Applicant must demonstrate financial need. Applicants for RLF financing must demonstrate that credit is not otherwise available on terms and conditions which would permit completion and/or the successful operation or accomplishment of the project activities to be financed. In this section the applicant must address its financial needs consistent with the above requirement.

## CREDIT AND FINANCIAL ANALYSIS

Once the complete full application has been received, HEDA Staff or its Agent conducts a review of the application and prepares a loan write-up summary. This review and write-up may include, but not be limited to, the following areas:

- Eligibility within the framework of the revolving loan fund plan;
- Overall economic benefits of the proposed project;
- Balance sheet and ratio analysis and determination of adequate capital and equity;



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- Analysis of repayment ability;
- Management skill of the applicant;
- Collateral values with supporting appraisal reports;
- Collateral offered and lien position;
- Credit risk of applicant;
- Credit reports on borrower and/or principals;
- Need for any special requirements such as hazard insurance, key man life insurance, personal guarantees, etc.;
- Credit not otherwise available

## **PROCEDURES FOR LOAN APPROVALS**

- The HEDA staff will review the completed application and contact the business to either schedule the HEDA presentation or for additional information.
- The HEDA Staff reviews all completed full applications and prepares a review and loan write up for presentation to the HEDA Finance Committee for review
- The HEDA Finance Committee reviews the application and loan write up and either declines to make the loan or forwards for approval to the full HEDA board at their next meeting
- The HEDA Board reviews the project, HEDA Finance Committee recommendations, etc., and makes a decision on the application. The decision in the form of a financial majority (2/3) vote of Board Members is documented in the Board's meeting minutes.
- HEDA Staff informs the applicant of the decision made by the HEDA Board and will require acknowledgment of approved Loan Commitment Resolution by signing the loan documents within thirty-days of notification that the loan documents are drafted and ready for signature. If the loan documents are not executed or an extension is not approved for an additional thirty (30) days by the HEDA Board, the loan approval is considered rescinded, and the borrower will have to reapply for a new loan.
- Borrowers are responsible for keeping HEDA staff apprised of progress on their project to ensure that loan funds are drawn down at a reasonable rate. A period of no activity for six months or loan funds that remain undrawn for the project after twelve months without an approved extension by the HEDA Board will be considered rescinded and deposited back into the appropriate loan fund for subsequent borrowers.
- If the borrower changes the business name or other pertinent information after the board approval, the borrower may be responsible for additional fees to update the loan documentation.

## **LOAN SERVICING**

### **REPAYMENT:**

Loan payment and accounting services will be provided by the city of Hibbing's finance department.

- Borrowers are required to sign up for an automated clearing house (ACH) payment per the loan terms, upon execution of the loan documents.



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- If a borrower moves the funded business outside of the city limits of Hibbing before the loan is fully repaid, any outstanding funds will be due in full.
- The finance department will provide payment billings and notices to all loan fund borrowers
- The finance department will provide monthly reporting to the HEDA board of all deployed funds, including delinquent payments by individual loan and amounts (P & I)
  - The monthly record keeping provided to the HEDA board will include itemizing total principal payments and balances, interest payments and balances for each loan in the portfolio.

## MONITORING:

Loan monitoring and servicing will be handled by city of Hibbing's finance department. Staff will take responsibility for monitoring and keeping records on accounts in terms of repayments, collection of ongoing financial information, annual insurance renewals, UCC extensions, and borrower site visits. Further, the finance department will handle all local, state and federal reporting requirements for the loan portfolio.

## LOAN FILES:

Loan files will be maintained by the city's finance department for each approved loan. A Loan Application file and a Loan Closing file will be created, along with a business subsidy agreement if required. The Loan Application file will contain the full application. The Loan Closing file will include all loan closing documents, including but not limited to copies of promissory notes, loan agreements, security agreements, UCC's, mortgages, evidence of insurance, loan commitment resolutions, loan summary (loan write ups), subsidy agreements, and general correspondence.

## LOAN DEFAULTS:

The HEDA policy regarding delinquencies (less than 60 days delinquent) will be firm, yet flexible with provisions for modifying or restructuring the terms of delinquent loans consistent with program objectives and responsible money management. Any modifications to the loan terms and conditions must be requested in writing by the applicant.

Defaults (delinquencies more than 60 days or failing to meet any of the other loan covenants) will be handled on a case-by-case basis. Specific action taken will depend on the nature and circumstances surrounding the default, the amount and availability of collateral involved, and the costs versus the benefits of obtaining and liquidating assets. Any action taken will be handled by HEDA Staff and HEDA attorneys, with necessary approval of the HEDA Board.

When HEDA receives proceeds on a defaulted or written off loans, the loan fund will apply such proceeds in the following order of priority:

- First, towards any costs of collection;
- Second, towards outstanding penalties and fees;
- Third, towards any accrued interest to the extent due and payable; and
- Fourth, towards any outstanding principal balance.



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Any borrower who defaults on a loan must make reasonable recompense to the HEDA revolving loan fund as determined by the HEDA Board before initiating any additional loan applications for the same or subsequent businesses.

### LOAN WRITE OFFS:

HEDA shall exhaust all remedies available to ensure that the entire debt is collected. Upon final disposition of the loan, if a portion of the loan is deemed uncollectable, it will be written off in accordance with general accounting procedures. Loans with an outstanding balance that have been placed in default and remain outstanding after 180 days will generally be written off. However, collection efforts will continue until determined not to be cost effective or prospects for recovery no longer exist. All write-offs must be directed to the HEDA Board for approval.