

Request for City Council Committee Action from the Department of Community Planning and Economic Development - CPED

Date: December 8, 2009

To: Council Member Lisa Goodman, Community Development Committee
Council Member Paul Ostrow, Ways and Means/ Budget Committee

Subject: Revolving Loan Funds Programs -
Year-end portfolio summary and delinquency report for the 2% Revolving Loan Program and the 2% Commercial Corridor/ Commercial Node Loan Program.

Recommendation: The CPED Director recommends that the City Council:

1. Approve the proposed Small Business Revolving Loan Fund Program guideline changes. See Exhibit A to this report.
2. Approve the proposed Commercial Corridor/Commercial Node Revolving Loan Fund guideline changes. See Exhibit B to this report.
3. Receive and file loan portfolio and delinquency information included in this report.

Previous Directives: The Small Business Revolving Loan Fund Program guidelines were established in 1986. Amendments were made in 1993, 1996, 2000, 2003 and 2004. The last portfolio summary submitted December 2, 2008.

Prepared by: Judy Moses, CPED, Business Finance, 673-5283

Approved by: Charles T. Lutz, Deputy Director CPED _____

Catherine A. Polasky, Director, Economic Development _____

Presenters in Committee: Judy Moses

Reviews

- Permanent Review Committee(PRC): Approval N.A. Date _____

Financial Impact

- No financial impact

Community Impact

- Neighborhood Notification: All programs are City-wide small business loan programs.
- City Goals: Assistance to small businesses aids in building communities and in creating the environment that maximizes economic development opportunities in Minneapolis.
- Sustainability Targets: N/A
- Comprehensive Plan: N/A
- Zoning Code: N/A
- Living Wage/Business Subsidy Agreement Yes_____ No_X_ Not Applicable
- Job Linkage Yes_____ No_X_

Supporting Information

The 2% Revolving Loan Program began originating loans in 1986. The program was expanded in 2004 through the creation of the 2% Commercial Corridor/ Commercial Node Small Business Loan Program.

The program guidelines for the Small Business Revolving Loan Fund were last updated in 2004. Since that time we have seen an increase in the number of community lending partners participating in the programs who do not fall under the term “bank”, therefore we are proposing to update the terminology that is used in the guidelines and lender agreements.

The maximum dollar amount of the City’s matching loan has been capped at \$40,000 since 2000. With the rising cost of construction we feel that the program would encourage a larger number of business owners to improve their building or leasehold space if the maximum loan amount was increased from \$40,000 to \$50,000. The increase would also align the maximum loan amount for the 2% loan program with the current maximum loan amount under the Alternative Financing Program.

Lastly, the list of eligible expenditures cited in the guidelines has been expanded to include building and site improvements that fall under the category of energy conservation and energy retrofits.

The delinquency rate on the revolving loan fund remains at less than 3%, which we believe will help absorb a higher loan amount and additional borrowing under the proposed guideline changes.

The following is a summary of the respective portfolios as of 10/31/2009.

2% Revolving Loan Program - Portfolio Summary

Total # of Loans to Date: 892

Total Loans Outstanding: 159

Total 2% \$ Loaned to Date: \$21,134,492

Total \$ Outstanding: \$2,756,325

Total # of Loans Written Off: 39

Total # of Loans on Watch List: 9

Total \$ Amount Written Off: \$470,169

Total \$ Amount on Watch List: \$98,125

Total # of Loans Defaulted: 48*

Total # of Loans Paid Off: 694

Default Rate: 2.68%**

Total \$ Private Invest: \$52,950,157

\$2.51 of Private Investment for every \$1.00 of Public Funds – Not Counting Owner’s Equity.

* Includes loans on the Watch List and loans Written Off.

**The default rate percentage includes the loans currently on the Watch List.

2% Commerical Corridor/ Commercial Node Loan Program - Portfolio Summary

Total # of Loans to Date: 78

Total Loans Outstanding: 68

Total 2% \$ Loaned to Date: \$5,762,800

Total \$ Outstanding: \$3,902,829

Total # of Loans Written Off: 2

Total # of Loans on Watch List: 0

Total \$ Amount Written Off: \$127,715

Total \$ Amount on Watch List: \$0

Total # of Loans Defaulted: 2*

Total # of Loans Paid Off: 8

Default Rate: 2.22%**

Total \$ Private Invest: \$31,615,358

\$5.48 of Private Investment for every \$1.00 of Public Funds – Not Counting Owner's Equity.

*** Includes loans on the Watch List and loans Written Off.**

****The default rate percentage includes the loans currently on the Watch List.**

REVOLVING LOAN FUND AGREEMENT

BETWEEN

CITY OF MINNEAPOLIS

AND

PARTICIPATING LENDERS

THIS AGREEMENT, entered into this ____ day of _____, 20____ by and between the

CITY OF MINNEAPOLIS
(Hereinafter referred to as the City)

and

(Hereinafter referred to as the Lender)

WHEREAS, the City of Minneapolis has established a Revolving Loan Fund (RLF) for the purpose of making loans to neighborhood small businesses; and

WHEREAS, the establishment of the RLF requires that loan monies advanced from the RLF be matched by at least an equal amount from a local lender;

NOW THEREFORE, in consideration of the above premises, the parties hereto agree as follows:

1. That the document entitled "Small Business Revolving Loan Fund Program Guidelines," attached hereto as **Exhibit A** and incorporated herein, governs this agreement and the loans to be made hereunder.
2. That the Lender in conjunction with the City will make eligible loans for rehabilitation at a ratio of 1:1 not to exceed a program maximum limit of \$100,000. Any additional loan monies exceeding the program maximum limit shall not be the responsibility of the City.
3. That, for each loan made, up to half the funds will come out of the RLF, up to a maximum of \$50,000, and at least half the funds will be made available by the Lender.
4. That interest will be computed in the following manner. At the annual rate of two percent (2%) on the City's portion and current market rates for the monies loaned from the Lender.
5. That the term of the loan shall not exceed ten (10) years. The Lender shall make the determination of the appropriate term.
6. That the City will pre-screen the applicants for loans to determine if their request meets the program eligibility standards.

7. That prior to approving or rejecting a loan request the Lender shall process the request in the same manner as any other commercial improvement loan request.

8. That the Lender shall then approve or reject the loan based on the program requirements, provided that no application can be rejected for any unlawful reason; provided further that the City shall not have the authority to approve or reject a loan on behalf of the Lender.

9. That if the Lender and the City approves the loan, the City shall tender its check drawn on the RLF for half of the principal amount of the loan, up to a maximum of \$50,000, at the time of the loan closing.

10. That for each loan, the Lender shall have the loan recipient execute a promissory note(s) and appropriate collateral documentation such as a security agreement, loan agreement, mortgage, personal guarantees, etc., to the Lender except under special circumstances agreed to by the Lender. The City interest in the promissory note and collateral or guarantees shall be subordinate to that of the Lender. The promissory note shall, along with other documents, state the interest rate and schedule for payment.

11. That for each loan entered into under the Agreement, the loan recipient shall be required to file Form 1, "Loan Application" and "Loan Applicant's Certification" indicating he/she has read and understood the Program Guidelines. Form 1 shall be executed substantially in the form of Form 1 attached hereto as **Exhibit B**.

12. That in conjunction with City's tendering of its check for half the loan, the Lender shall execute a "Certificate of Participation" for each loan whereby the Lender sells a portion of the loan to the City at the rate of two percent (2%) per annum. A blank copy of said Form 2 "Certificate of Participation," is attached hereto as **Exhibit C** and is incorporated herein by reference hereto.

13. That the Lender upon closing the loan will collect the City's Origination Fee of 1% of the City loan amount (with a minimum of \$150) from the Borrower and remit said Fee to "the City of Minneapolis" in conjunction with requesting the City's Participation Amount.

14. That the schedule for loan payments by the recipients shall be determined by the Lender and said payments shall be made to the Lender on a monthly basis in accordance with the promissory note (s).

15. That the Lender shall provide to the loan recipient a Truth-in-Lending Disclosure when applicable.

16. That the Lender shall remit loan payments to the City on a monthly basis. On a monthly basis, the Lender shall pay to the City that portion of the loan recipient's payments for the prior month which represents a two percent (2%) payment of interest on the outstanding principal balance for the City's share of the loan, and that portion of the monthly payment which represents a repayment of the principal amount of the loan.

17. That this Agreement shall expire when the (i) RLF monies available to the City are exhausted or (ii) the tenth (10th) anniversary of this Agreement, whichever occurs first. Provided, however, either party may terminate this Agreement at any time for any reason by written notice to the other of its intention to do so. Such termination shall be effective upon the effective date set forth in such notice, or, if no date is set forth, upon giving of the notice. If this Agreement is terminated in accordance with the procedures set forth above, said termination shall not affect the rights and obligations of the Lender and the City with respect to loans outstanding on the effective date of such termination.

18. Through Minneapolis City Ordinance 109.470, City and City-derived funds are prohibited from use to pay for billboard advertising as a part of a City project or undertaking.

19. With respect to its obligations under this agreement, The Lender agrees to be bound by the City's Code of Ethics, Minneapolis Code of Ordinances, Chapter 15 as it exists on the date of this Agreement. The Lender certifies that to the best of its knowledge, all City employees and officers participating in this Agreement have also complied with that ordinance. It is agreed by the Parties that any violation of the Code of Ethics constitutes grounds for the City to void this Agreement. All questions relative to this section shall be referred to the City and shall be promptly answered.

20. The books, records, documents and accounting procedures and practices of the Lender relevant to this contract shall be subject to examination by the City or its designees.

21. The Lender understands that the use or disclosure of applicant or recipient data, when not directly connected with the administration of the Lender's or the City's responsibilities under this Agreement, may be prohibited by the Minnesota Government Data Practices Act or other state and federal laws and regulations on data privacy unless written consent is obtained from such applicants and recipients.

22. The City and the Lender shall not be liable to each other for any amounts due under the loans to the extent failure to pay such amounts results from a default by the loan recipient.

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IN FURTHERANCE WHEREOF, the parties hereto have set their hands as of the day and year first above written.

CITY OF MINNEAPOLIS:

By _____
Robert E. Lind

Its: Manager, CPED/Business Finance

Approved as to form:

Assistant City Attorney

Participating Lender:

By _____
Its _____

**COMMERCIAL CORRIDOR/COMMERCIAL NODES
REVOLVING LOAN FUND LENDER AGREEMENT**

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WHEREAS, the establishment of the RLF requires that loan monies advanced from the RLF be matched by at least an equal amount from a local lender;

NOW THEREFORE, in consideration of the above premises, the parties hereto agree as follows:

1. That the document entitled "Commercial Corridor/Commercial Nodes Small Business Revolving Loan Fund Program Guidelines," attached hereto as **Exhibit A** and incorporated herein, governs this agreement and the loans to be made hereunder.
2. That the Lender in conjunction with the City will make eligible loans for rehabilitation at a ratio of at least 1:1 not to exceed a program maximum limit of \$150,000. Any additional loan monies exceeding the program maximum limit shall not be the responsibility of the City.
3. That, for each loan made, up to half the funds will come out of the RLF, up to a maximum of \$75,000, and at least half the funds will be made available by the Lender.
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7. That prior to approving or rejecting a loan request the Lender shall process the request in the same manner as any other commercial improvement loan request.

8. That the Lender shall then approve or reject the loan based on the program requirements, provided that no application can be rejected for any unlawful reason; provided further that the City shall not have the authority to approve or reject a loan on behalf of the Lender.

9. That if the Lender and the City approves the loan, the City shall tender its check drawn on the Commercial Corridor/Commercial RLF for up to half of the principal amount of the loan, up to a maximum of \$75,000, at the time of the loan closing.

10. That for each loan, the Lender shall have the loan recipient execute a promissory note(s) and appropriate collateral documentation such as a security agreement, loan agreement, mortgage, personal guarantees, etc., to the Lender except under special circumstances agreed to by the Lender. The City interest in the promissory note and collateral or guarantees shall be subordinate to that of the Lender. The promissory note shall, along with other documents, state the interest rate and schedule for payment.

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Authorized Signor