Section 108 Loan Guarantee Program

Economic Development Loan Fund

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Economic Development Loan Fund

- **Section 108 Loan Guarantee Program**
  - $1,520,000 Total Funds Available
- **Micro-Loan Program ($300,000)**
  - Provide small, short-term loans for active small businesses and small business start-ups
  - **Maximum loan amount**: $35,000
  - **Term:** 6 years
  - **Rate:** Determined during application process
  - Consultation with the AU Small Business Development Center is advised for small business start-ups

Economic Development Loan Fund

- **Commercial and Industrial Loan Program ($1,220,000)**
  - Purpose of undertaking special economic development activities
    - Commercial Development and/or Industrial Development
    - Acquisition, construction, rehabilitation, installation, equipment, and improvements
  - **Maximum loan amount:** Determined during application process
  - **Term:** Determined during application process
  - **Rate:** Determined during application process

Eligibility Requirements

Micro-Loan Program and Commercial and Industrial Loan Program

- National Objective
- Eligible CDBG Activity
- Public Benefit Standards
- Other Federal Requirements
- Underwriting

National Objective

- **Project has to meet one of the three CDBG national objectives:**
  - Low to moderate-income (LMI) benefit (70% required)
  - Elimination of slums and blight
  - Urgent need

No more than 30% of the Section 108 allocation can be used for Elimination of Slums and Blight and/or Urgent Need

Documenting National Objectives

- **Low to moderate-income (LMI): Jobs**
  - At least 70% of the Section 108 allocation must meet this national objective
  - Written agreement required for the following:
    - The assisted project involves the creation or retention of jobs at least 51% of which benefit low to moderate-income persons (permanent jobs, calculated on a full-time equivalent basis)
    - Employer agrees to give first consideration to LMI applicants
    - Each employee must sign a Job Certification form to document household income
  - ED Staff must monitor the business to ensure the LMI job requirement is met within 3 years
  - Failure to meet LMI requirements will result in accelerated loan repayment

Documenting National Objectives

- **Elimination of Slums and Blight**
  - Spot Basis
    - Individual properties suffer blight/decay (prevent the spread of blight to adjacent properties or areas)
    - Rehabilitation is limited to eliminating specific conditions detrimental to public health and safety
  - Area Basis
    - Defined area must be officially designated by the City and must meet the definition of slum, blighted, deteriorated or deteriorating area under State or local law
    - At least 25% of the properties is the area must be deteriorated, blighted, vacant, etc.
    - Activity addresses conditions which contributed to the deterioration
- **Urgent Need**

Eligible CDBG Activity

- **Micro-Loan Program**
  - Inventory and/or working capital
  - Supplies
  - Furniture
  - Fixtures
  - Machinery
  - Equipment
- **Commercial and Industrial Loan Fund**
  - Acquisition
  - Construction
  - Reconstruction
  - Rehabilitation
  - Installation
  - Equipment
  - Improvements

Public Benefit Standard

The public benefit standard ensures the project is appropriate given the amount of CDBG assistance being given.

- **Individual Standard**
  - National Objective: LMI Jobs
    - Limit $50,000 per job created/retained
- **Aggregate Standard**
  - National Objective: LMI Jobs
    - Limit $35,000 per job created/retained

Other Federal Requirements

- **Environmental Clearance**
  - Ensures construction project will not have a negative impact on the environment
  - Consultation with Federal agencies are required

- **Davis-Bacon Wage Requirements**
  - Ensures construction workers are paid prevailing wages
  - Applies to construction projects over $2,000

Underwriting Guidelines

- Project costs must be reasonable
- Other financing commitments must be documented
- CDBG/Section 108 not to be substituted for non-federal funds
- Project must be financially viable
- Appropriate collateral required as deemed necessary
- Return on owner's equity not unreasonably high
- Pro-rata disbursement
- Availability of funds

Application Process

- Complete Section 108 Loan Application through Community Development Office
- Provide additional information as required
- Complete technical assistance through the Small Business Development Center at Auburn University (Micro-Loan Program) as deemed necessary

Additional Documentation

- Balance Sheets and Income Statements for the past three years
- A two-year Pro-Forma Balance Sheet and Income Statement for existing and startup companies
- Personal Financial Statements and Resumes for the Principals involved in any Proprietorship, Partnership, or, non-public corporation
- Business Plan
- City of Auburn business license
- Articles of Incorporation
- Corporate Resolution authorizing any individual(s) to obligate the company
- Appraisals (if Real Estate or Equipment is involved)

Internal ED Staff Analysis

Underwriting the Loan

- HUD Compliance/National Objective Screening
- Financial Analysis
- 3 C's Credit Analysis
    - Character
    - Capital (collateral)
    - Capacity (ability to repay)
- Determine loan terms and repayment schedule
- City Attorney to prepare loan documents
- City Council approves staff recommendation

Key Section 108 Steps

- Screen Potential Project (Application Process)
- Economic Development staff underwrites the project and submits recommendation to City Council
- Disburse and Service Loan

Questions?