

# Micro Business Revolving Loan Fund

## ( MB Program )

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### **A.Goals and Objectives:**

#### 1. Retain Skowhegan's Commercial and Industrial Base:

Assist in the financing of projects which will benefit low and moderate income people. Assist in the finance of Businesses that are unable to borrow small operating capital amounts.

#### 2. Retain and/or create jobs:

Expand business employment and ownership opportunities for the benefit of Skowhegan residents.

### **B.Strategy**

#### 1. The main focus will be to keep a small local business viable

#### 2. Coordinate with other area economic development activities, including:

a. Small Business Development Center counseling services

b. Eastern Maine Development

### **C.Loan Criteria**

#### 1. Types of Activities

Uses of the Micro Business Program (MB Program) financing will include but not be limited to the expansion or modernization of plant and equipment, a start-up capital for new firms. MB Program monies can be used to finance either fixed

assets, inventories or other working capital. The following types of businesses and activities shall be eligible for Micro Business Program financing:

- a. The retention or expansion of existing businesses
- b . Locally owned and outside owned businesses
- c. Primarily small businesses with a gross income of less than One hundred thousand dollars (\$100,000.00).

### **D.Administration**

The Town of Skowhegan will

1. Be responsible for overall Micro Business Program administration through the Economic/Community Development Office.
2. Assist Micro Business Program applicants with packaging of development proposals through the Economic/Community Development office
3. The Board of Directors of the Skowhegan Economic Development Corporation will serve as the Loan Review Committee. The Loan Review Committee will review loans and make recommendations to the Board of Select for the final decision to approve or deny the application
4. Annually monitor the administration of the Micro Business Program to ensure that operations are in accordance with the management plan
5. The Board of Selectmen may adopt amendments to the Management Plan when requested to do so.
6. The MB Program will be audited yearly as part of the Town's external audit
7. The Micro Business Revolving Loan fund program will have a start-up Capitalization of \$20,000.00. There will be a cap of \$5,000.00 for any loan from this program. Loan repayments with interest from this initial fund will be used for additional Micro Business Revolving loans. If any additional funds are needed, the SEDC Board will need to seek approval from the Board of Selectmen
8. The Town will comply with Title 1 (listed under: "THE ACT" in the Blue Book) requirements and 24 CFR 370.200 ET AL in the Blue Book under Outline General Requirements

### **E.Operational Guidelines**

1. The maximum loan amount will be \$5,000.00 depending on the loan fund balance
  - a. No business will be able to borrow an amount larger than \$5,000.00, In other words, if a business came in for a loan of \$3,000.00 and a year later they want to borrow more funds, they would only be able to borrow \$2,000.00 which will bring them to the \$5,000.00 limit, they would not be able to borrow any more than the \$2,000.00 even though they had paid down on the \$3,000.00
  - b. If a business receives a \$5,000.00 loan they would be not be eligible for another loan until the total \$5,000.00 has been paid off
2. The rate of interest for each loan will be determined by the Loan Review Committee
3. The term of each loan will be set by the Loan Review Committee. The loan duration shall not exceed 3 years unless there are documented extenuating circumstances
4. Loan fees
  - a. A 1.5 percent package fee will be charged to cover the costs of assembling the application and administering the loan
  - b. A \$5.00 monthly service charge will be included in the billing
5. Late payments and delinquencies
  - a. When a loan is 15 days in arrears, a late payment charge of 5% of the loan payment will be added
  - b. A loan will be considered delinquent if payment is not made within 15 days of the due date
  - c. If the borrower is more than 30 days in arrears and has not notified the servicing agent of a plan to become current that the Town of Skowhegan Municipal Officers have approved, the borrower will be considered in default. If a borrower defaults, whether through non-payment of scheduled loan payments or through breach of any loan conditions, appropriate legal or other action will be taken to assure that some or all of the amount will be recovered and returned to the MB Program. The Town of Skowhegan will have the responsibility of taking action to cure delinquent accounts, in the event that the matter is turned over to the Town Attorney for collection. The Borrower will be responsible for all reasonable attorney fees and collection costs.
6. Security

- a. All loans will be secured with Real Estate where possible
- b. All spouses of applicants will sign the personal note

## **F.Loan Application and Review Process**

1. Loan applications will be evaluated on a first come, first serve basis
  - a) Applications have to be submitted to the Economic / Community Development office a minimum of seven days before the second Tuesday of the month to be placed on the agenda of regular S.E.D.C. meeting.
2. The applicant must be the owner, partner, chief officer or have power of attorney to apply for financing
3. Projects will be selected for MB Program financing according to the following criteria:
  - a. Consistency with the Fund's overall economic development objectives, strategy and priorities as stated in Sections A, B and C of the Management Plan.
  - b. Demonstrated financial feasibility and repayment ability. (See Section G.1 for details on the financial analysis of loan applications).
  - c. Proven management ability and capacity to complete the project
  - d. Compatibility with the environment, local ordinances and other community objectives
4. Initial screening of all applicants will be done by the Economic/Community Development Office based on consistency with MB Program objectives as stated in Section A. above.
5. When the Economic / Community Development office has finished reviewing the application, the application will be submitted to the SEDC board with recommendation for review. If approved, the application is sent to the Board of Selectmen with a recommendation for approval.
6. After a loan application has been approved, a formal Loan Agreement will be drawn up. The Loan Agreement will state clearly all of the terms of the loan, including any special conditions that may be required. The loan agreement will be signed by a representative of the Town of Skowhegan and the applicant after all details have been resolved to the mutual satisfaction of both parties. All loan agreements shall be contingent on adequate funds from loan payments being available to the Micro Business Program.

7. An unsuccessful applicant for a loan may request a review from the Skowhegan Economic Development Corporation of the decision based on errors of fact or procedure. Such a review may not be based on judgements concerning the feasibility of the proposed project or the credit worthiness of the applicant. An applicant may submit a new application at any time.

8. The Town of Skowhegan may issue requests for proposals when the Fund reaches \$10,000.00. These requests will be posted in public places and in two newspapers 45 days before proposals are due.

## **G. The Analysis of Loan Applications**

The loan review process will involve financial analysis

### 1. Financial Analysis

The financial analysis will have three components:

#### A. Credit Analysis

Review of the history of the business, the principals of the new enter-prise, management personnel, financial condition and bank and trade credit standing.

#### B. Collateral Analysis

Review of ownership and effective value to the creditor of any asset pledged as collateral for the loan.

#### C. Cash Flow Analysis

Review of the financial projection describing the projected future condition of the business subsequent to the placement of the loan and all factors affecting the future condition of the business including market and economic trends.

The Skowhegan Economic Development Corporation will accept the same financial package as most of the area banks require. The financial requirements will normally include the following:

1. A completed application form
2. Financial statements covering the past year, including a balance sheet, and a profit and loss statement of business
  - a. Plus a personal balance sheet

3. Amount of financing required and the purposes for which the funds will be used.
4. Description of the product line(s)
5. An analysis of the market for the products
6. Names and analysis of the competition
7. Number of employees at present, at year end for the last three years and projected for each of the next three years
8. History of the company
9. Background information (resumes)
10. Details of existing bank loans and other financing of the business, including stock pledges.
11. Details of the capital of the business, including ownership and amounts of investment.
12. A listing of accounts receivable and phone number of major suppliers.

## **H.Loan Servicing**

1. Collections: The billing of borrowers for amounts due, the receiving and posting of payments and the notification of borrowers in a timely fashion of past due accounts will be the function of Economic/Community Development staff
2. Monitoring of Compliance with Loan Conditions: Collecting evidence on on-going compliance with loan requirements, counseling of delinquent accounts and the initiation of collection procedures for delinquent accounts will be the responsibility of the Economic/Community Development staff
3. Monitoring of Financial Performance: Periodic review of updated financial statements will be the responsibility of the Economic/Community Development staff
4. Technical Assistance: Provisions of additional assistance will be the responsibility of the Economic/Community Development staff

## **I. Sources of Funding to cover Administrative Costs**

Funds to cover administrative costs of the Micro Business Program may be provided from the interest earned from Micro Business Revolving Loan funds,

profits from the sale of Micro Business Program loans, Micro Business Program fees and other general revenues from State and Local governments as needed

If you have any question, please contact the office at 474-6905 or [E-mail us](#)