

Town of Schroon

Business Revolving Loan Fund

Program Design and Guidelines

Goals of the Town of Schroon Business Revolving Loan Program

This Business Revolving Loan Program (Program) has been developed to help the community achieve the following goals:

1. Strengthen the commercial base in the area by stabilizing existing businesses and attracting new ones,
2. Create new and retain existing jobs,
3. Stimulate new private investment within the community, and
4. Facilitate community development through small business assistance.

Every project receiving loan funds must address one or more of the program goals.

Loan Criteria and Priorities

Each loan request will be reviewed on a case-by-case basis. The intent of the Program is to improve the area's business climate and create job opportunities. Loans will be made which will have the greatest positive impact on the community. These impacts include attracting new businesses, retaining existing businesses, and creating job opportunities in the Town of Schroon.

LOAN APPLICATIONS

Application Fee

A \$100 application fee is due at the time of application submission.

Eligible Borrowers

Eligible borrowers are for profit businesses and organizations that support for profit businesses located wholly within the Town of Schroon. Businesses may be new or established. Eligible borrowers must be project occupants – no third-party loans will be given. All businesses and borrowers must be current with applicable local, state, and federal taxes. If applicable, businesses must be in good standing with New York State Franchise laws. If building renovations are part of the project, business property must be in conformance with the local land use zoning ordinances.

The Town of Schroon, at the discretion of the Town Board, may use Revolving Loan Funds without specific limits for the betterment of the Town.

Use of Funds

Eligible loan uses include:

- Property acquisition
- Improvement of land, including demolition, site preparation, and new build (if undertaken in conjunction with other activities)
- Exterior building improvements (if undertaken in conjunction with other activities)
- Interior design and remodeling
- Business expansion needs
- Furniture, fixtures, and equipment purchases
- Equipment repair, if essential to the business function
- Working Capital, including start-up costs, cash flow, inventory, professional fees, advertising/promotion.

Minimum and Maximum Loan Amounts

Loans will range from a minimum of \$5,000 to a maximum of \$75,000 per business for eligible project activities.

Interest Rate

Interest rates for the Program will be set annually by the Schroon Town Board at its Organizational Meeting. The Town Board will choose the annual interest rate based upon review of current interest prime rates quoted in the Wall Street Journal for loans of similar size and maturity. Once approved, the interest rate will remain in effect for the calendar year. It is the intent of this Program to provide financing at a rate lower than traditional business loans.

Interest rates will be fixed for the term of the loan. The Town of Schroon will not negotiate interest rates with borrowers.

Interest-Only Period

A six-month interest-only period is allowable, upon approval of the Loan Review Committee at the time of application.

Repayment Terms

Loans will have flexible terms dependent upon the type of project financed.

Brick and Mortar and Real Estate: maximum of 15 years

Furniture, Fixtures, Equipment, and Machinery: maximum of seven years

Working Capital: maximum of 5 years

Credit Not Otherwise Available

As a requirement to receive funding, the loan applicant must be referred to the Town of Schroon Business Revolving Loan Program by a traditional lending institute. Lending institutes to include, but not limited to Arrow Bank, National Association; Champlain National Bank; Community Bank, N.A.; TrailNorth Federal Credit Union; TD Bank, N.A. A referral must be in writing and can be in the form of a letter or email. The referral must be in concert with the project that the borrower is seeking loan funds for.

Job Creation

Preference will be given to projects that create and/or retain employment within the Town of Schroon.

Collateral Requirements

Collateral requirements, including general intangibles, will be based on the merit of each request and will vary for each loan. Examples of acceptable collateral include mortgages on real estate, liens on equipment, inventory, receivables, and/or fixed assets, as well as the acquisition of hazard and other forms of insurance, including life insurance. Other additional securities may be identified to ensure loans are properly collateralized. The Town of Schroon will consider subordinate mortgage positions.

For collateral subordination requests after a loan has been closed, a \$100 fee will be imposed.

Guarantors

A personal guarantee from the borrower(s) is required to secure a loan. Any individual owning 20% or more of the business or business entity related to the loan must be a personal guarantor on the loan. This includes providing all requested information in the application process.

Code Requirements and Historic Preservation

If rehabilitation is a part of the project, the building must meet local and state codes upon project completion. In all other cases, buildings assisted must meet local codes at the time of loan closing and throughout the term of the loan.

Projects involving work on historic buildings may require a review by the New York State Historic Preservation Office. The review may involve the review and approval of project building plans, and applicants must ensure they are in conformance with all historical requirements.

Permits

Any and all necessary project permits must be obtained before loan closing.

Tax Obligations

For applicants who are property owners, all local and county taxes must be current at the time of loan approval and be kept current during the term of the loan. Failure to keep taxes current may cause the loan to become due and payable in full if the property is used as collateral.

Restrictions on Use of Capital

The following activities are not eligible uses of loan funds:

- Refinancing existing debt,
- Subsidizing interest payments on an existing loan,
- Acquiring an equity position in a private business,
- Serve as collateral to obtain credit or any other type of financing,
- Gambling,
- Supporting operations not in line with the intent of the Program,
- Any other restrictions as determined by the Town of Schroon.

LOAN REVIEW PROCESS

Loan Review Committee

The Schroon Town Board appoints a five-member Loan Review Committee that makes the final decision regarding all loan applications. Appointments will be made at the annual Town Board Organizational Meeting. Loan Review Committee members are appointed to a two-year term and may be reappointed. Appointments are to be staggered, two appointments on even years and three appointments on odd years. In the event that a Loan Review Committee member's term is set to expire and no successor has been appointed by the Town Board, the member will continue to serve until the Town Board acts on the vacancy. Loan Review Committee members can include, but are not limited to, representation from the following sectors: banking, accounting, business owners, former borrowers, and attorneys. Loan Review Committee members must be full-time residents of or employed full-time at a business located in the Town of Schroon. No active Town Board member may sit on the Loan Review Committee.

Three members present constitute a quorum. No business may be conducted unless a quorum is present. If a quorum is not present at any meeting, a majority of the voting members in attendance may adjourn the meeting and set a new meeting at a subsequent date. A Loan Review Committee member must attend meetings in person or via videoconference in order to vote. Vote by proxy or written consent is not permitted.

Two alternate members of the Loan Review Committee may be appointed. The alternate members may sit as voting members of the Committee at any meeting in which one or more of the regular members are unable to attend. In the event that a Loan Review Committee member is absent and not excused for three consecutive meetings, the Chair

may make a recommendation that the Town Board remove the member and appoint a new one.

The Loan Review Committee will determine, as needed, the schedule for meetings which are open to the public. The Loan Review Committee will elect a Chair annually from the appointed members who shall call and preside over all meetings. The Chair is responsible for calling the meeting to order, determining the presence of a quorum, ensuring that minutes will be recorded, and conducting and adjourning the meeting. After the presentation of all necessary and appropriate information and after sufficient time is allowed for discussion, the Loan Review Committee shall vote on each loan. Voting will be made upon a motion and second by the Loan Review Committee members. Minutes of all Loan Review Committee meetings will be recorded, mailed to all Loan Review Committee members, and kept by the Town Clerk in the Town Hall. The Town Clerk will also keep all files and application materials in the Town Hall.

Loan Review Criteria

The Loan Review Committee reviews loan applications, determines eligibility criteria have been met, evaluates the economic feasibility and impact of the project, assesses credit risks, makes determinations on the feasibility of business plans, and determines if loan amounts are appropriate.

Specific loan review criteria and priorities are as follows:

- Businesses must be located within the Town of Schroon
- Businesses must be retail/commercial businesses
- Businesses must show job creation and/or retention
- Businesses must demonstrate financial need
- Businesses must contribute to the economic growth of the area
- Businesses must enhance the quality of life in the Town

Applications will be assessed on:

- Character – The reputation of the business/management, past credit history of the business and all principal owners and summary of references.
- Capacity – Past payment history, past business results and borrowing history.
- Capital – How well capitalized is the business.
- Conditions – A discussion of the industry and market conditions of the business.
- Collateral – The primary analysis of any loan request will be on the projected cash flow of the business. Collateral will represent a secondary source of repayment.
- Community Investment – Will the business add to the overall benefit of the Town and its community.

- Management – Does management have sufficient financial skills to operate the business and provide capital to avoid overextending the business.

Application Review Process

This Program has a two-tiered loan review process, Initial Eligibility Review and Complete Loan Review.

Initial Eligibility Review

Initial eligibility review by the Loan Review Committee includes review of the following information submitted by the applicant:

- \$100 application fee
- Completed loan application
- Business Plan
- Interim financial statements of the business through the most recent month available, but in no case more than three months prior to the loan application date (not applicable to start-ups).
- List of customers and suppliers
- Resumes of Principals
- Quotes and/or construction estimates related to the loan

This initial review accomplishes three objectives: it allows the Loan Review Committee to compare the loan request with the program objectives and goals; it provides an early decision regarding the need to proceed with an intensive review; and it provides a forum for a consensus regarding the viability of the application. The Loan Review Committee will determine the following by consensus:

1. The need for additional information
2. Decision to proceed to a complete loan review
3. Rejection of the application

Receipt of the application will be acknowledged in writing within seven (7) days. Notice of the action taken by the Loan Review Committee during the initial eligibility review will be given to the application within ten (10) business days after the Loan Review Committee meeting.

Complete Loan Review

If an applicant is chosen to move to Complete Review through a consensus of the Loan Review Committee, the applicant must provide the remaining application information, including:

- Personal Financial Statements of all principals owning 20% or more of the business

- Signed Credit Authorization Form. The Loan Review Committee reserves the right to obtain credit reports regarding any applicant owning 20% or more of the business or business entity.
- Previous two years federal personal tax returns for any applicant described above.
- Previous two years federal business tax returns for the business or business entity (not applicable to start-ups).
- Projected balance sheet and income statement for one year following the receipt of the loan.
- Information on outstanding debt.
- Proposed collateral and appropriate documentation of worth of collateral. If collateral is real estate, an assessment value must be provided. The Loan Review Committee reserves the right to require a completed appraisal before closing on all real estate collateral.
- Copies of all permits and licenses, as applicable.
- Bank and trade references.
- Business formation documents.
- All other information as requested.

The Loan Review Committee will review the submitted information and may request a site visit at the place of business associated with the loan. Following the Complete Review, the Loan Review Committee will make the final decision regarding the loan request. The Committee may modify the loan amount and include conditions for approval. The Loan Review Committee will decide by an affirmative vote of the majority of voting members (3 total) on loan requests.

Approved Loans

Upon approval of the loan, the Loan Review Committee will notify the applicant and the Town Board in writing. The notice to the applicant will list the terms and conditions of the approval. Loan commitments will be issued within five (5) business days of approval and will be open for a period of 45 calendar days unless extended by the Loan Review Committee in writing.

Rejected Loans

In the event that the loan request is declined, the application will be so notified within ten (10) business days after the Loan Review Committee meeting.

LOAN CLOSING PROCESS

A loan closing will be initiated once a signed and dated Commitment Letter is received by the Town Clerk, who will retain the original and forward a copy to the designated Loan Fund Attorney, who is responsible for preparing all required legal documents for signature by the borrower at closing including but not limited to note, mortgage, security agreement, UCC

certificate, etc. Business insurance, naming the Town of Schroon as a loss payee, is required for all loans. Loan funds may be disbursed to the borrower directly from the Town loan fund account or placed in the loan attorney's escrow account for disbursement, based on case-by-case circumstances.

Closing Costs

Closing costs, such as the Loan Fund attorney fees, UCC filing fees, mortgage recording tax, appraisals or other fees deemed necessary are the responsibility of the borrower and are due at the closing. There is a 1% closing fee due to the Town of Schroon at the time of closing.

Post Approval Requirements

Loan recipients will report on the number of jobs created and funds leveraged in a manner as required by the Loan Review Committee.

Loan Servicing will be established to maintain a good payment discipline. The Loan Review Committee will visit each new borrower frequently during the first year. After a good payment history is established, visits can be reduced in frequency. The Loan Review Committee may visit each project after the first year. Financial statements will continue to be submitted on an annual basis or as requested by the Loan Committee.

Loan Modifications

Loan modifications are allowable; however, they must be approved by the Loan Review Committee. Loan modifications can include moratoriums on principal payments for a maximum of six months, provided the borrower has shown a definitive need for interest-only payments. To receive a moratorium on principal payments, the borrower must provide the Loan Review Committee with their current financial statements and updated debt schedule (no more than 60 days old). Should the moratorium be approved, the Town will inform the bank of the dollar amount and length of time of interest-only payments.

LOAN COLLECTION PROCESSES

A Loan Servicer, appointed by the Loan Review Committee, is responsible for ensuring payments are made to the designated bank for each of the active loans. On a monthly basis, payments on all loans will be reviewed to ensure they have been made on a timely basis and the amount received is according to the loan agreement. If payments are not made on a timely basis or the amount due, the following process should be followed:

Loans which are ten (10) days past due:

- A late fee of 5% of any payment that is ten (10) days past due will be assessed. This is a standard term that is stated within the Promissory Note.

Loans which are fifteen (15) days past due:

- Loans first time past due: the Loan Servicer will place a call to the Loan Recipient,

obtain information on the cause of the past due payment, and work with them to bring the loan current.

- Loans which are habitually past due: the Loan Servicer will place a call to the Loan Recipient and discuss terms for payment. At this time, the Loan Servicer will discuss with the recipient the potential resources for not making regular payments and assist them in working through any cash flow issues affecting payments.
- Follow-up calls should be made to the Loan Recipient if they do not make their past due payments as promised.

Loans which are thirty (30) days past due:

- A thirty (30) day letter will be sent to the Loan Recipient.
- If payment is not remitted within 10 days of the date of the letter, a follow-up call is made to the loan recipient to discuss payment options. In some cases, it may be prudent to ask them to meet with the Loan Review Committee to discuss their situation. If late payments are habitual, the Loan Servicer will review loan documents and work with recipients to assist through their payment issues.

Loans which are sixty (60) days past due:

- A sixty (60) Second Notice Past Due letter will be sent to the Loan Recipient.
- If payment is not remitted within 10 days from the date of the letter, the Loan Servicer will contact the recipient and set up a meeting to discuss options for keeping payments on track.
- In reviewing their current position, a loan modification may be in order, however any Loan Modification must be approved by the Loan Review Committee.

Loans which are ninety (90) days past due:

- A ninety (90) day Final Notice letter will be sent to the Loan Recipient requiring the recipients to come and speak at a Loan Review Committee meeting.
- If payment is not remitted within 10 days from the date of the letter, the loan will be turned over for collection. At any point, the recipient may bring the loan current. Loan modifications are an option and must be approved by the Loan Review Committee.

Foreclosure

If collection efforts are unsuccessful on a defaulted loan or inadequate to recover loan proceeds, the Town of Schroon will commence foreclosure proceedings to acquire title and possession of affected collateral. All such proceedings will be in accordance with applicable New York State laws. The Loan Servicer and a designee or member of the Town Board will meet with legal counsel to evaluate the status of the collateral, value of

collateral, positions on mortgages, potential of judgements, seizing assets, and the cost to the Town associated with all potential actions. The Loan Servicer and/or Loan Fund Attorney will review all options with the Town Board to determine a path forward. The Town will continue to service any defaulted loan until a settlement deemed favorable has been reached.

LOAN ADMINISTRATION

Funds Repository

A bank or other commercially appropriate entity will be appointed by the Town Board to perform loan servicing.

Loan Portfolio Monitoring

The Loan Review Committee will review, semi-annually, the status of the entire portfolio. The review may include a consideration of:

- Loan volume
- Number of jobs created/retained
- Cost per job created/retained
- Default rate
- Delinquency rate
- Term, maturities, and interest rates
- Capital available for lending
- Audit
- Necessary renewal of filed UCCs

A report of the portfolio will be given to the Town Board no less than semiannually in a manner and form as may be required by the Town Board.

Loan Fund Income

Loan Fund income is utilized in two ways; (1) it is placed in the Loan Fund Capital base and used for the purpose of making loans; or (2) utilized by the Town of Schroon to cover eligible administrative costs for the loan fund's operation.

Administrative Costs include;

- Cost of personnel hours to perform tasks associated with the loan fund,
- Indirect expenses necessary for the operation of the loan fund.

The anticipated maximum usage of income for administrative costs is 75%. These costs are accounted for as determined by the Town Treasurer.

Conflict of Interest

An Interested Party of Recipient shall not receive, directly or indirectly, any personal or financial interest or benefit resulting from the disbursement of loan funds. A financial interest or benefit may include employment, stock ownership, a creditor or debtor relationship, or prospective employment with the organization selected or to be selected for a sub-award.

An "Interested Party" is any officer, employee, or member of the Loan Review Committee or other governing board of Recipient, including any other parties that advise, approve, recommend or otherwise participate in the business decisions of Recipient, such as agents, advisors, consultants, attorneys, accountants or shareholders. An Interested Party also includes such a person's "Immediate Family" (defined as a person's spouse, significant other or partner in a domestic relationship, parents, grandparents, siblings, children and grandchildren, but not distant relatives, such as cousins, unless the distant relative lives in the same household as the person) and other persons directly connected to that person by law or through a business arrangement.

