

Nebraska Northwest Development Corporation

Community Development Block Grant / USDA Revolving Loan Funds

Program Guidelines

NNDC
706 West 3rd Street
Chadron, NE 69337
(308) 432-4023
dcottier@gpcom.net

Contact:
Deb Cottier, Executive Director

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Introduction

The Reuse Loan Fund derived its initial revenue from a Community Development Block Grant to be used in Dawes County and USDA Rural Development Grant that was provided for gap financing in Dawes, Sioux and Sheridan Counties. The repayment of these loans is the pool from which the Reuse Loan draws perpetuating funds. The intent of the Reuse Loan Fund is to provide gap funding to businesses so that they may create full time jobs while increasing the overall economic base of the community. Community Development Block Grant funds originally came from HUD (Department of Housing and Urban Development) to the state of Nebraska and the Department of Economic Development distributed the funds for community economic development.

Lending Criteria

- Applicant cannot borrow more than 50% of the total project cost from the Reuse Loan Funds. This amount cannot exceed \$10,000 (USDA) or \$20,000 (CDBG/RBEG) per each full time position created or retained.
- The Reuse Loan Funds will only provide the funds that are necessary to fill the financial gap that is needed to see the project move forward.
- The Reuse Loan Funds will be directed to the applicant providing the greatest potential for long-term job creation.

Loan Terms:

- Maximum- 10 years for fixed assets: which are tangible items that cannot easily be converted to cash.
- Maximum- 7 years for working capital: A business uses this capital for day-to-day operations.
- Loan funds cannot exceed the maximum years stated above. Other applicants are waiting to use the funds for other economic development projects.

Interest Rate:

- The loan interest rate will be the same as the New York Prime Rate as published daily in The Wall Street Journal the day the loan papers are approved.

Loan Fee:

- There is no loan fee
- Prepayment Penalty: none

Job Creation/Retention:

- One full time equivalent job (2,080 hours annually) per \$20,000 (CDBG/RBEG) or \$10,000 (USDA/IRP) provided must be achieved for each business assisted. Two permanent part time jobs (2,080 combined hours annually) can be aggregated to count as one full time equivalent job in the same project.

Collateral Requirements:

- Collateral is required. No unsecured loans shall be made. Types of collateral may include one or more of the following:
 1. Real Estate
 2. Liens on Revolving Loan Funds financed machinery, equipment, or other fixtures
 3. Assignments of rents
 4. Personal and /or Corporate Guarantees

Equity:

- 10% of the total project cost for any business in continuous operation 3 or more years.
- 20% of total project costs for any business in operation less than 3 years or just beginning (Quarterly or annual financial statements may be required).

The equity can be in the form of cash, land and/or building that is directly associated with the business.

General Credit Requirements:

- All applicants must satisfy the following general credit criteria. The requirements are imposed so that the Revolving Loan Fund assistance is not used to compensate for an applicant’s deficiencies in these basic areas. An applicant must:
 1. Show that the proposed assistance is reasonably secured so as to assure repayment.
 2. Show that the past earning record (for expansion) and future projections (new business) of the business indicate ability to repay the loan and other fixed debt, if any from the operation of the business.

Eligible Applicants:

- A for profit business, which maintains and/or expands the area’s economic base or provides support to the local economy. The reuse funds can be applied for when other sources of funds under market terms are not otherwise available.

Eligible Costs include:

- Working capital and lines of credit
- Infrastructure
- Land costs including: Engineering, legal, grading, testing, site mapping and related costs associated with the acquisition and preparation of land.

- Building construction costs including: Real estate, engineering, architectural, legal and related costs associated with acquisition, construction and rehabilitation of building and tenant improvements.
- Purchase of inventory, furniture, fixtures, machinery and equipment.

Ineligible Applicants:

- Projects are not eligible unless they meet a national objective to create or retain permanent full-time jobs.
- Any nonprofit businesses, gaming activities, agricultural production that uses more than 25 acres of farm or ranch land, petroleum production, livestock or dairy production are not eligible.

HUD/USDA Guidelines

NNDC is prohibited from providing Revolving Loan Fund assistance unless the requested assistance is appropriate as defined by HUD and HCD (Department of Housing and Community Development). The loan policies are designed to assist businesses that could not proceed without the Revolving Loan Fund assistance and to ensure that the Revolving Loan Fund is appropriate.

NNDC uses the project guidelines to determine whether proposed Revolving Loan Fund assistance is appropriate. In addition, each proposed project will be reviewed to determine that the required level of public benefit will be obtained from the requested expenditure of Revolving Loan Fund funds.

The object of the project guidelines is to ensure that:

- Sufficient public benefit will be received from the expenditure of Revolving Loan Fund funds.
- All sources of project financing are committed
- Revolving Loan Fund funds are not substituted for non-federal financial support (applicant must have a lending institution as part of the process)
- The project is financially feasible
- The return on the business owner's equity investment will not be unreasonably high.

Project Costs:

Each cost element of a project will be reviewed for reasonableness and to avoid providing either too much or too little funding assistance. The amount of time and resources expended evaluating the reasonableness of a cost element shall be commensurate with its costs. In some instances, NNDC may require third-party fair-market price quotations or cost estimates. Any transactions that are not arm's length will require that the cost elements be thoroughly documented and supported.

Commitment of All Sources of Project Financing:

Prior to the commitment of Revolving Loan Fund funds to the project, a review shall be conducted to determine if:

- Sufficient sources have been identified and committed to the project
- The applicant and the participating lenders have a financial capacity to provide the funds
- The project is viable and will move ahead in a timely manner
- The public will benefit from the business

Filling the Financial Gap:

In order to receive Revolving Loan Fund funds, a project must have a “financial gap.” This gap must be documented. Two types of financial gaps are used to determine qualification for a loan.

- Unavailability of Capital: The project can afford the cost of financing, but is unable to obtain the funds from either debt and/or equity sources.
- Cost of Capital: The project cannot support the interest rate, loan term and/or collateral requirements of a lender.

Financial Feasibility of the Project:

Each project will be examined to determine the financial viability of the project, and thus the reasonable assurance that the public benefit will be realized. The following information that must be submitted with an application is:

- The current and past financial statements for both the business and/or individuals must be analyzed
- Tax returns from the past three years
- A current credit report, no more than thirty days old
- Projections for the first year and the next three years

The assumptions behind the projections must be critically analyzed. Income and expense costs shall be evaluated and compared historically, where applicable, and compared to industry averages (using guides such as Robert Morris Annual Financial Statements). Project costs, including both hard and soft costs, must be determined to be reasonable. Accurate project costs are vital to determining project feasibility. As part of the financial analysis, the past current, and projected financial data shall be analyzed to determine if the job estimates are reasonable and supportable. Labor costs shall be checked against the national average and variations shall be explained in the loan analysis.

Application Process

Application Process:

- Fully complete applications reviewed by NNDC whom is the Program Administrator
- The Loan Review Committee evaluates the application and will either recommend approval to the Executive Committee or make recommendations to the applicant.
- Public Hearing on application
- The Executive Committee makes the final decision to approve or deny the loan application. All appeals shall be made to our Executive Committee.
- Please Note: the Loan Review Committee throughout the process may request additional information.

Standards for Evaluating Public Benefit:

Each project will be reviewed to determine if a minimum level of public benefit will be obtained from the expenditure of Revolving Loan Fund funds. The minimum standards are:

- Project site within the incorporated boundaries of the loan programs.
- The project must lead to the creation or retention of at least one full-time equivalent job per \$10,000 (USDA) or \$20,000 (CDBG)
- The timing of job creation must be reasonable in relation to the receipt of Revolving Loan Funds assistance. Projects must typically create the first new job within eight weeks of receipt of CDBG funds and all other new jobs within six months of construction completion

Financial Analysis

Financial Analysis:

Historical and projected financial statements will be subject to financial analysis to determine the gap. The following statements should appear in the business plan.

- Start-up expenses
- 4-year profit projection
- 12 month cash flow
- 12 month profit and loss
- 12 month sales forecast

- Breakeven analysis
- First year projections
- Three year projections

The Loan Review Committee will not consider the same project for funding more than two times. Projects that are turned down twice must be substantively altered before being eligible for reconsideration. During the altering process, applicants are expected to take into consideration the suggestions made by the Loan Review Committee.

Appeal Process:

In the event that the application is denied both times, the applicant has the right to an appeal. The Executive Board will hear the applicant appeal and make a decision based on the information that the applicant presents to the board.

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