



Modesto Revolving Loan Process

This document provides an overview of the Process and Stages to obtain a loan through the City of Modesto Community Development (CD) Revolving Loan Fund.

For a detailed overview of the City of Modesto Community Development (CD) Revolving Loan Fund and program requirements please see [Attachment A](#).

For Frequently Asked Questions please see [Attachment B](#)

Approximate Timing:

Stage #	Bus Days	Step Description
1	1	NOTICE OF INTEREST: Complete and submit Notice of Interest Form. City Staff will be advised on loan interest, and initial/projected loan amount. While completing Stage 2, you will be advised of the availability and projected timing.
2	Varies	PREPARATION OF PRESENTATION: Initiate Technical Assistance: Preparation of Loan Package and Business Plan. The length of this stage varies from week to months based on the complexity of the project and research completed and/or business stage.
3	3-5	REVIEW OF PRESENTATION: Staff Review and Recommendation of Business Plan, follow-up with related questions. Projected timing details will generally be available within 7 business days of the submission. This time may run concurrent with Scheduling time.
4	5-15	SCHEDULING COMMITTEE MEETINGS: Depending on the nature of the request, e.g. size, risks, or other factors. The loan request may require approval or recommendation by the CD Loan Committee, CH&CDC, and/or the City Council. An advance public posting is required for some of these meetings which may impact the timing.
5	2-5	PREPARATION AND EXECUTION OF LOAN DOCUMENTS: These may be prepared in advance of the approval, but are subject to approval of the final approving committee.

Notice of Interest Form please see [Attachment C](#)

Complete the Notice of Interest Form and e-mail or deliver to City of Modesto, Attn: Scott Humphries, Parks, Recreation & Neighborhoods Department, e-mail: shumphries@modestogov.com Phone: (209)571-5506.





Preparation of Presentation- Applicant MUST Make Contact for Technical Assistance: Log on to Alliance Small Business Development Center (www.alliancesbdc.com) and complete a Request for Services through the Modesto Office; note that you were referred through the City of Modesto RLF.

NOTE: The Alliance SBDC is the approved source for FREE COUNSELING and Low/No cost Training programs. The Alliance SBDC is certified Small Business Development Center by the US Small Business Administration.

You may also call the Modesto Office at (209) 567-4910 Attn: Kurt Clark to request assistance in preparing the RLF Loan Package.

The Alliance SBDC can help you prepare the needed plans and exhibits, or they can review what you have already done.

Required Items to process a loan request by the CD Loan Committee:

- Business plan, including marketing plan, prior results and financial projections for 3 years or more showing prior and projected progress towards financial criteria. A comparison to industry norms should be included where available.
- 3 Years Business Financials, including all related and supporting federal tax schedules.
- Current/Initial and projected balance sheets for each of the three years.
- Personal Financial Statements and Federal Taxes for each principal with ownership or control over 10%. (If managed by employees, their guarantee may also be required.)
- IRS Form 4506 executed for each person/entity that has tax returns. See www.irs.gov
- If the Business does not meet program minimum financial guidelines, a viable plan to achieve the financial objectives must be developed in the business plan (working with the Technical Assistance Provider - AllianceSBDC.com.) Material progress towards these objectives will increase the consideration of the request.
- Release to allow CD Loan Staff discuss business plan with Technical Assistance Provider.
- Copies of Leases, loan documents for other lenders or abstract of loan terms.

Once these items are complete, the request is forwarded to the City of Modesto, Attn: Scott Humphries, Parks, Recreation & Neighborhoods Department. At that time you should confirm the availability/timing of loan funds.

The Loan request is then reviewed by staff members, generally within 5-10 business days you will be contacted with any initial questions and the timing of the next Loan Committee meeting. Depending on the amount or other factors, the loan may require approval by the City Council.



Attachment A
PROGRAM REQUIREMENTS

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CITY OF MODESTO COMMUNITY DEVELOPMENT (CD) REVOLVING LOAN FUND

LOANS TO BUSINESSES

Background: As businesses and markets go through transition their borrowing needs often do not meet traditional lenders requirements. The purpose of the City-sponsored Community Development (CD) Revolving Loan Fund is to help meet these needs when a qualifying public policy purpose is also being achieved. Ideally these funds can be leveraged through other resources, to expand the total amount of funds and/or other resources available to the businesses. It is expected that some of the resources leveraged will include "Technical Assistance" in addition to other lenders. Programs like this have traditionally averaged over 4:1 leverage from other funding sources.

It is anticipated that as businesses grow, they will need to work with new lenders and/or acquire additional assets that would not be covered or funded through this loan program; it is understood at times that lien positions may need to be altered either for collateral or position to facilitate new capital needs. The debt may be subordinate to another lenders debt, but not debt of a principal.

Key Public Policy Objectives that are part of this program include:

- Increased employment, with an emphasis on targeted socio-economic groups that meet the criteria defined under federal Department of Housing & Urban Development (HUD) guidelines.
- Increased economic activity, through the addition, expansion or retention of employers.
- Increased economic diversity, as new companies may expand the services available in the local/regionally area.

BORROWER ELIGIBILITY

Target Companies: Small businesses operating within the City of Modesto's sphere of influence with a priority placed on companies owned by disadvantaged groups, and/or located in or employing people residing in low income census tract areas.

FINANCIAL CRITERIA

Profitable with positive trends: This would be net income after interest and depreciation expenses, positive trends do not require sales to be increasing if profitability or cash available to service debt is improving. A decline in sales should be noted and explained though.

Adequate Cash Flow: This is based on cash available to service debt, or net income after taxes and owner distributions, plus depreciation, amortization, and interest expense; compared to the past and/or projected debt service. The threshold for adequate is 1:1, with a plan to exceed 1.5:1, where X:Y is X=projected debt payments (annually) and Y=cash available to service debt (annually.) If adverse trends are present an alternative plan should be prepared. Nonrecurring/One time items should be excluded or adjusted from the calculations. An aggregate cash flow of borrower and guarantors may be used to support the request.



Positive Tangible Net Worth: Tangible assets, less debt. Intangible assets include debt to shareholder(s). Consideration should be given to assets that are under or overvalued in the balance sheet, e.g. accelerated depreciation of equipment, real estate, obsolete inventory, etc.

Alternative Plan: If the above levels are not currently being achieved, a reasonable plan for the accomplishment of the following should be part of the loan request:

Profitability: Positive net income.

Adequate Cash-Flow: Funds available to service debt to cover projected debt service 1.25x or more for producing assets or 1.5x or more to one for non-producing assets. (May be consolidated with guarantor(s) at goal of 1.75x.)

Positive Tangible Net Worth: Reaching positive or within conventional lending guidelines.

LOAN TERMS

Project Amount: \$25,000 or more.

Loan Amount: \$25,000 or more, with emphasis given to loans that leverage other resources.

Loan Types: Term Loans: Maturity from 1-7 years, amortization to begin within 12 months from note date, e.g. interest only for a period of up to one year. Repayment based on amortization of up to 10-years, unless longer term/amortization required by the Small Business Administration (SBA) if leveraged transaction with other funds. Funding may be done in stages, by month.

Payment deferrals and interest rate adjustments may be considered on a case-by-case basis.

Short Term (in lieu of a line of credit)

Interest Rate: Pricing in accordance with type of request, generally Wall Street Journal Prime plus 3% floating, a fixed rate may be approved on a case-by-case basis. A rate floor of 7.25% and cap of 18% will apply after the pilot stage. The rate may increase after a period of time, to encourage borrowers to move to traditional financing as they progress (thus allowing other companies to benefit from the lending program.) The rate structure should be noted in the loan summary. Interest payments are meant to grow the program and provide future leverage of resources for other companies.

Interest Rate -Pilot Period/Intro Rate: The rate may be reduced during an initial period to meet other public policy goals and/or during the pilot stage to accomplish program goals or compensate for the pilot nature of the program.





Origination Fee: 2% origination fee, with a \$250.00 minimum, and documentation fee of \$250.00 will apply for standard loan documents. Any and all third-party fees, UCC, and legal fees to be reimbursed by the borrower. This can be reimbursed or deducted from the loan proceeds.

LOAN PURPOSES

Expansion of Business: An existing business growing through acquiring new equipment, purchase of or expanding or remodeling building space, or to otherwise expand their productive capacity. (Loan term/amortization generally mirrors SBA guidelines, e.g. an amortization of 7-10 years or less, with an exception for the purchase of a building/facility that can be amortized over 30 years and due in 10 years to meet SBA requirements.) If loan purpose is leasehold improvements-term should mirror lease terms or be properly mitigated.

Working Capital: Help provide long-term working capital injection for an existing business. This would be with the intent to retain or increase jobs.

Business Start-up: In rare circumstances, the loan program may entertain requests for business start-up loans. Investors/Principals should have a material intellectual and equity investment in the business, and previous business experience. Ideally the business experience should be in a directly or closely related field. If a company has been in business for less than 12 months, it is considered a start-up. For business start-ups the principals' recent credit history should be superior, with no unexplained slow payments within the last 24-months. Over 2 unrelated 30-day late accounts in the last 12 months would be considered a significant adverse factor and require mitigation.

Projections should be properly vetted and supported when compared to favorable industry standards.

Management: Adequate experience should be in place to cover the management of the business as determined by Committee based on relevant industry standards.

Size of Business: Generally annual revenues of \$10 million per year or less, or meeting the SBA size definition of a small business for their classification. Revenue is generally based on the historical facts (taxes), if a company has an adverse change during the current tax year that would create eligibility the exception can be reviewed on a case-by-case basis.

Type of Business: Initially for profit businesses are eligible, non-profit businesses can be reviewed on a case-by-case basis with emphasis given to impact on employment. The business must operate legally within the laws of California and at the location it operates.

Operating History: For all uses except business start-up, the business should have been in business for over 12 months prior to the date of application.

Financial Criteria: The following are minimum criteria for eligible businesses:

- 1) Must be profitable with positive trends;
- 2) Must have and maintain an adequate cash flow;
- 3) Must possess a positive tangible net worth.



In the event these conditions are not present, applicant's shall demonstrate a reasonable plan to achieve these conditions preferably within the first 12-24 months is to be provided as part of the approval process. Ideally the loans should be collateralized by collateral. Preference is given to companies that can margin the collateral (Loan to value of under 80%, or less.)

Credit Bureau(s) should be in the file and explanation of any derogatory items noted in the file. See special criteria under Business Start-up regarding credit.

Loans from principals to the business should be subordinated to the Loan(s), these are then considered equity.

Annual updates should be provided, with comments about progress towards the financial goals. Key ratios to observe and monitor are: debt service coverage based on funds flow [(net income after taxes, plus depreciation, amortization and interest) divided by debt payments], positive tangible net worth and profitability. This should be reviewed by City staff and placed in the loan file. The number of employees should be tracked on an annual basis, for employers with seasonal variations, peak and minimum employment can be noted to track progress.

Collateral: A filing on Business assets should be taken (UCC Filing Statement.) Ideally the collateral should be adequate to cover the value of the loan. In the alternative, a plan to reach proper collateralization should be identified in the plan. These will vary depending on relevant industry standards.

Technical Assistance: All companies using the program services should have already been involved with Technical Assistance, such as a Small Business Development Center or related program/provider.

Repayment: In the event of difficulty reaching financial objectives for debt service coverage, payments may be reduced to interest only requiring the execution of a new agreement.

CD Loan Committee: An approval committee shall review and approve loan requests with the limit of \$100,000, or other amount as otherwise designated by the City Council. The committee shall be comprised with at least one primary representative from the City Council, Citizens Housing & Community Development Committee, City staff, and a community resource, such as the Stan Alliance or the Alliance Small Business Development Center or a Certified Development Company. Alternate members may vote in the absence of the primary member. Loans in excess of the committee approval limit would require ratification by the City Council. A City staff member shall be designated to act as Secretary to certify approval facts. The Secretary may be a voting committee member. A dissenting voter may provide an explanation, but is not required to. If a request is not approved or recommended by the committee the request may be appealed to the Council.

A majority vote of the Committee is required for approval. Approvals and modification requests must be made in writing and delivered in-person to the Parks, Recreation, & Neighborhoods Director. A written record of the approval should be kept and certified by the Secretary. City staff will provide regular and periodic updates to the City Council on any loan activity.

Subordination Requests: It is expected as participating companies expand they would need additional lending/funding, other lenders may need to be senior on collateral. Subordination and requests to



exchange collateral can be approved by the CD Loan Committee. Repayment may be allowed, in lieu of owner's draw/salary to cover living expenses-to reduce income taxes due. Limits may be placed on the total payments to principals for this purpose.

Collections: In the event of a payment default, collection may be turned over to a third-party. Collections generally would be handled by City staff.

LOAN SUMMARY

The following criteria should be captured in a loan summary:

- How funding will be used to hire or retain low to moderate income qualified employees under Department of Housing and Urban Development (HUD) guidelines.
- Business background, management history and product/business niche. Key clients existing and new/target. How referred into program.
- Financial operating results: Areas of strength and mitigation for weaknesses-Primary source of repayment.
- Financial balance sheet review: Key assets and liabilities, secondary source of repayment is generally from balance sheet sources.
- Additional notes regarding management/principals:
- Loan terms and collateral: Rate, repayment, and related items.
- Recap: Why the loan does not work conventionally, resources being leveraged-including from principals, strengths and weaknesses-recommendation. Future Conditions/results that would increase or decrease risk profile.

APPENDIX

Committee Members:

Council Representative: A primary and at least one alternate member shall be designated and approved by the City Council.

Staff Representative: A primary and at least one alternate member shall be designated by the Department Directors over Community & Economic Development and Parks, Recreation & Neighborhoods

Community Resource Representative: A primary and alternate member shall be designated and affirmed by the Citizens Housing & Community Development Committee.

Committee Members should excuse her/himself if any conflict of interest is present.



Attachment B
FREQUENTLY ASKED QUESTIONS

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FREQUENTLY ASKED QUESTIONS

1. Who funds the “CD”?

The City of Modesto’s Community Development (CD) Revolving Loan Fund is funded by Community Development Block Grant Funds (CDBG) and is committed to helping small businesses provide jobs to low income persons through job retention and/or new job creation.

2. Can I apply for “CD” loan for personal needs, such as to purchase a car or appliance or refinance personal credit card debt?

No, the CD only provides loans for working capital, opening or expanding small businesses through acquiring new equipment, purchase of or expanding or remodeling building space, or to otherwise expand their productive capacity. All CD loans have to retain or create jobs.

3. What information needs to be included in my Business Plan?

Your business plan should include the following information:

- The type of business you plan to operate
- The products and/or services you will offer
- The customers you will target and serve
- The methods you will use to advertise and promote your business
- Your experience and background in the type of business you plan to operate
- The proposed use for the funding you will receive
- Your past and projected financial statements for your small business

Your business plan is the most important component of your loan application!

4. Are there any fees associated with “CD” loans?

Yes, a 2% origination fee, with a \$250.00 minimum, and documentation fee of \$250.00 will apply for standard loan documents. Any and all third-party fees, UCC, legal etc. to be reimbursed by the borrower. This can be reimbursed or deducted from the loan proceeds.

In all cases, origination and recording fees are financed into the proceeds of the loan.





5. Who makes the final decision on whether my loan is approved?

The CD Committee comprised of a City Councilmember, Citizen Housing & Community Development Committee member, Staff representative from Parks, Recreation & Neighborhoods (PRN), Staff representative from Community & Economic Development and Community resource such as the Alliance.

6. What steps do I need to take to close my loan once it is approved?

After your loan is approved you will need to sign all documents associated with the loan. City Staff will prepare all documents.

7. Why do you require companies to use technical assistance?

When looking at what makes a significant increase in the success of business ventures, a common thread has been access and utilization of technical business resources. This can help avoid or resolve the issues that arise when a company is operating. The odds of success for your business are much higher when this assistance is in place prior to you starting your business.

8. Why do you suggest the use of the Stanislaus Economic Development and Workforce Alliance (www.StanAlliance.com) and the Alliance Small Business Development Center (www.AllianceSBDC.com)?

These groups are public private partnerships that the City helps fund to provide affordable and cost effective resources to area businesses. Their services are available for free or low cost to local businesses. They also can help simplify the tracking of data required for tracking the success of the loan program, saving you and your business time.

9. What kind of business will you lend to?

Emphasis is given to businesses that legally operate and help accomplish the goal of the loan fund; creating and retaining jobs with an emphasis on employing people with LMI. This means that a service, manufacturing, or retail business are all eligible for the loan program.

10. If I complete all the steps am I guaranteed a loan?

Loan approval is based on other factors, including available funds and perceived viability of the proposed business by the committees that approves the loans.

11. If I am declined will I be told why?

Yes





12. I have started the process with the Alliance SBDC and I am being told that I should apply to other lenders, why?

The program attempts to provide access to funds for viable projects that can not be funded through regular lending channels. The SBDC may have knowledge of a loan source that could help your business. These funding sources should be used where possible instead of or with the CD Funds.

13. What do you mean other funding sources should be used instead of or with City Loan Funds?

The CD loan program leverages community resources, so that more people are helped. If another loan program can provide part of the funding, the CD loan program can help more businesses benefit from the limited CD loan resources



Attachment C
NOTICE OF INTEREST FORM

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NOTICE OF INTEREST

**CITY OF MODESTO
COMMUNITY DEVELOPMENT (CD)
REVOLVING LOAN FUND**

Interested Applicant Completes:

Company Name:	
Location of Business (Street Address):	
Use of Funds:	
Date Business Started:	
Type of Business Organization:	Select one: Sole-Prop, Partnership, S-Corp, C-Corp, Non-Profit, LLC
Number of Employees:	Current #: _____ if loan granted # New Jobs: _____ # Retained Jobs: _____
Desired Loan Amount:	\$ _____
Company Contact:	
Contact Phone(s):	
Contact Email:	

A prerequisite of the loan program is the active use of Technical Assistance, which can be obtained for little or no cost through a US SBA Certified Small Business Development Center (SBDC.) Use of a non-certified provider will require prior approval of City. The local Certified SBDC is the AllianceSBDC (www.alliancesbdc.com.) By expressing interest and submitting an application package, I authorize City of Modesto Staff to communicate with the Technical Assistance provider(s), unless and until revoked in writing to the City and the Technical Assistance provider.

A major criterion in this loan program is the creation and/or retention of jobs for lower to moderate income residents. The StanAlliance (www.stanalliance.com) provides free services to area business to match employer needs with employees. I agree to utilize these services prior to using other employment resources during the loan term.

I acknowledge that I have reviewed the Program Outline and Process Overview documents. I certify that all documents and supporting exhibits submitted are accurate under the penalty of perjury. I authorize the obtaining and release of both personal and business credit bureaus in the pursuit of this loan request, and authorize the City of Modesto to utilize third-parties to secure such reports.

Executed by: _____ Title: _____ Date: _____

