



COMMUNITY REINVESTMENT PROGRAM

PROGRAM DESCRIPTION

The City of Claremont is an Equal Opportunity Lender

January 1993
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INTRODUCTION

The Community Reinvestment Program (CRP) operates as a function of the Development Authority of the City of Claremont, New Hampshire, and is managed by a Finance Committee, which is also the Loan Committee, hereafter referred to as the Finance/Loan Committee, appointed per the Claremont Development Authority (CDA) By-Laws. It is designed to facilitate and enhance borrowing opportunities for qualifying businesses which operate, or are planning to operate in Claremont. The fundamental purposes of the program are, in order of priority:

1. to promote sound, stable businesses in the City, which will in turn provide long-term benefits to Claremont citizens,
2. job creation and job retention,
3. increasing average Claremont household incomes,
4. increasing the tax base, and
5. commercial diversification.

This program plays a key role in implementing the Claremont City Council's economic development goals as well as those of CDA.

Activities seeking merely to relocate existing economic resources from one location within the City to another without there being a net gain for the business or community, and where the relocation would not be economical without the Authority's involvement or subsidy, are contrary to the policy of the Authority.

CRP does not wish to displace or compete with local banks. Its purpose is to make credit available to qualified businesses who might find it difficult to obtain loans from traditional sources. The CRP will act as a facilitator to fill "gaps" which may exist in the lending environment. The program will generally act as a secondary lender or guarantor to leverage private financing, but may act as a primary lender as the need and opportunity dictate. It is not the intent of the program to make loans at below market rates, but rather to make loans possible. Entities which qualify must have sound business plans which show long-term potential for economic benefit to Claremont. Each client's needs will be looked at with an eye to being flexible and creative in finding solutions. The CRP views a loan closing as the beginning of a relationship not the end. Loans will be actively followed with the intent of promoting success and mutual benefit.

The base of the CRP is a revolving loan fund which the City has developed over a period of years. These funds will normally be loaned in a subordinate position to a primary lender to enhance a total financing package. Potential borrowers will be encouraged to pursue Small Business Administration (SBA) loans and other special development lending opportunities currently available through banks and various other sources. The CRP may choose to act as a primary lender in particular cases deemed to have exceptional merit and with a two-thirds vote of the Executive Committee of the CDA. Funding for such loans, when available, may be through entities like the Farmers Home Administration Intermediary Relending Program (IRP).

The CRP is intended to be a financially self-supporting operation while promoting preservation and growth of its capital. Therefore, in order to recover the costs of generating and servicing the loans, each loan will be priced (the interest rate set) based on the cost of money, market rates, and the administrative costs for the CRP over the life of the loan. Other factors, such as risk, may also affect the pricing of the loans. Loan applications for over \$25,000 will be sent to a qualified third party for review and analysis unless this is deemed unnecessary by a two-thirds vote of the Finance/Loan Committee. The CDA Finance/Loan Committee will, in all cases, make the final decision on a loan.

The following pages set forth the eligibility requirements, lending criteria and the loan application procedure which govern the program.

ELIGIBILITY REQUIREMENTS

A. **TYPE OF BUSINESS** Any corporation, partnership, or proprietorship located in, moving to, or expanding in the City of Claremont. Businesses specifically excluded from participation include:

- lending institutions
- gambling institutions
- passive real estate investments - except "alter-ego trusts" where occupancy by an eligible business is significant
- residential
- retail business, unless through the "facade loan" program

B. **SIZE OF BUSINESS** The applicant business and/or its holding company, must meet the size guidelines of the SBA. Generally, a firm will be eligible if its net worth is less than \$6 million and its average profit after taxes during the previous two years is less than \$2 million.

II. LENDING CRITERIA Priority will be given to projects which have the most potential for creating or retaining jobs in Claremont.

A. LOAN/LOAN GUARANTEE AMOUNT

Typically, the CRP's participation in a loan will:

- be limited to 25% of the total cost of the project, not to exceed \$50,000,
- not exceed \$100,000 to any one borrower, and
- not be for less than \$5,000, except in the "facade loan" program where \$5,000 is the maximum.

These provisions may be waived by a two-thirds vote of the Executive Committee of CIDA in the case of special opportunities.

B. TERM

Financing will be offered for terms negotiated based on the expected life of the asset financed, borrowers ability to pay, and other criteria as may be appropriate on a case-by-case basis. The program will give priority to shorter term loans (5 years or less) in order to keep funding available. Ordinarily no prepayment fees will be charged.

C. INTEREST RATES

CRP financing will normally carry variable rates to be adjusted annually. The rate applied to a given loan will be determined commensurate with the criteria discussed in the Introduction. The base index for loan interest will generally be the Prime Rate as reported in the Wall Street Journal within seven days of receipt of the completed application. Margins over said rate will be set by the Finance/Loan Committee. After the initial rate is set, all future annual adjustments will be made in January based on the Prime Rate on the first working day of the calendar year. The revised rate will take effect with the February payment.

When CRP is providing a third-party loan guarantee, the applicant will pay all loan application fees as in the case of a loan, and the cost will generally be 1% to 4% per annum on the outstanding balance being guaranteed as of the first of the year.

D. ALLOWABLE USES OF PROJECT FUNDS

Eligible loan uses include:

- acquisition of land and building,
- construction,
- plant modernization,
- machinery and equipment purchase.

Working capital loans are an allowable but lower priority use of project funds and require a two-thirds vote of the CIDA Executive Committee.

Adequate assurance of proper use of funds shall be provided prior to closing. The “facade loan” program is designed to help small merchants make improvements in their business.

Preference will be given to those projects deemed to have the maximum potential to create or retain jobs and wealth in the Claremont community.

E. COLLATERAL

CRP's primary criterion for evaluating loans will be the quality and soundness of a firm's business plan. To secure its position, the program will generally accept a subordinate lien position to the primary lender. The form and amount of other security will be determined on a case-by-case basis, and may include, but not be limited to the following:

- personal guarantees will be required on all loans
- assignment of subordinate lease rights
- cross-collateralization of assets
- security interest in outside assets of borrower
- inventory; receivables
- corporate guarantees

All collateral will be evaluated carefully for marketability and value prior to acceptance. Any required appraisals must be performed by a source acceptable to the Finance/Loan Committee.

F. REPAYMENT ABILITY

Each applicant will be required to demonstrate an ability to service this loan as well as all existing debts. Evaluation of said ability will be based on documentation provided (see Submission Checklist for the complete list).

At the discretion of CIDA, late fees may be charged on loans not paid when due.

Borrowers who leave Claremont as their place of business before the loan's expiration will be required to pay the remaining balance.

G. FEES FOR LOANS

A nonrefundable application fee of \$100.00 will be due upon formal submission of a request for financial assistance.

If the loan is subject to review by the Capital Regional Development Council or other consultant (at CIDA's discretion), the applicant will be required to pay the fee (CRDC charges an hourly rate plus expenses up to \$450).

A loan commitment fee of 1% or \$200.00, whichever is greater, will be payable upon acceptance of the loan commitment.

The borrower will be responsible for all applicable legal and loan closing fees. A breakdown of such costs will be provided and will be payable at closing.

F. DISBURSEMENT OF FUNDS

Funds will be disbursed:

- at the closing,
- upon receipt of invoices or other evidence of encumbrance, or
- In accordance with the budget supplied with the loan application.

III. LOAN APPLICATION PROCEDURE The complete process consists of five phases that each loan will follow on its way to successful completion. The speed with which the application proceeds through phases one and two depends largely on the borrower. As a general rule, phase three will take 30 to 45 days, and phase four will take 30 days. Phase five is loan servicing after the loan is approved. The Finance/Loan Committee may waive specific requirements for the application itself, if the borrower has previously prepared an application using another format.

An outline of the loan application and approval process follows:

PHASE 1 Intake and Determination of Eligibility

- Initial inquiry at the Economic Development Office
- Applicant is provided with the Program Description and Applicant Package including Submission Checklist
- ED staff discusses the structure of loan with the applicant
- ED staff will provide the applicant with information on additional resources which may be of assistance to the applicant in making their application
- Applicant chooses to proceed
- File is opened
- ED staff may conduct a preliminary review, visit, and check
- If loan request does not meet lending criteria in paragraph II.A. on page 3, ED staff communicates with Finance/Loan Committee
- ED staff notifies applicant in writing of either invitation to proceed or ineligibility

PHASE 2 Formal Application Process

- Applicant submits all necessary documents to staff
- ED staff reviews the application for completeness
- Applicant pays the \$100.00 non-refundable application fee

PHASE 3 Loan Review and Decision by Committee

- Staff (or consultant designated by CIDA) performs analysis
- Applicant pays CIDA consultant fee if required
- Staff (or consultant designated by CIDA) prepares recommendation
- Finance/Loan Committee reviews loan recommendation and arrives at a decision
- Staff notifies applicant of decision in writing

PHASE 4 Implementation of Approved Actions

- Borrower pays the loan commitment fee (1% of loaned amount, not less than \$200)
- Borrower obtains other lender commitments in writing, if applicable
- Staff coordinates the closing with other lenders, legal staff, and all other parties
- Closing is held and disbursements made
- All documents are properly filed

PHASE 5 Loan Servicing

- Staff of Claremont Economic Development, or their designee, will service the loan and monitor the progress of the business as agreed in the closing
- Borrower will provide semi-annual operating statements to the Claremont Industrial Development Authority and annual financial statements within 120 days of fiscal year end

I. LOAN ADMINISTRATION

Loan servicing will be the responsibility of the Claremont Economic Development Office under the direction of the Claremont Development Authority.

As stated in the Introduction of this document, loans will be monitored throughout their term to ensure good faith on the part of the borrower and to avert problems through early detection of symptoms. Additional monitoring functions, deemed necessary by the Finance/Loan Committee or ED staff, may include, but not be limited to, site visits by ED staff or their designee. Each borrower will be required to agree to monitoring arrangements in the loan closing documents.

The point of contact for any questions or problems relative to a loan will be the Claremont Economic Development Office, Claremont, New Hampshire (603-542-7008) or their designee.