

## REVOLVING LOAN FUND

### PURPOSE

To enable funding of manufacturing and commercial expansion projects within Berrien County, Michigan in order to create and/or retain jobs.

### SOURCE

The Revolving Loan Fund ("RLF") was created from two sources:

- A) A \$1 Million grant received in 1981 from the federal Economic Development Administration ("EDA").
- B) Loans to Berrien County manufacturers from the Michigan Community Development Block Grant program ("CDBG") with repayment made to Berrien County rather than to the state.

Four local municipalities – Village of Galien, City of Buchanan, City of Niles and Benton Charter Township – also have revolving loan funds. Depending upon availability of funds, the County and municipal RLFs can both provide funds for a specific project to further enhance the equity position of the company with a financial institution.

### USE

Funds are used to provide gap financing for manufacturing projects which, in general, would not be funded by a financial institution without such an "equity" investment.

#### Allowable Expenditures

1. Acquisition/construction of real property.
2. Acquisition of personal property.
3. Working capital.

#### Disallowed Expenditures

1. Refinancing of existing debt.
2. Payment of taxes.
3. Buyout – EDA only.

Note: EDA and CDBG funds must be maintained separately as regulations differ. Each requires strict accounting and reporting procedures. To indicate such a difference within this summary, the appropriate initials will appear in bold type (**EDA** or **CDBG**).

### PROCESSING TIME

**RLF loans cannot be processed quickly.** Certain reviews and regulations require completion prior to any project activity. From inception to closing, processing requires a minimum of three months.

**Caution:** With **CDBG** loans **no** expenditures associated with the project to be funded may be made until certain procedures have been completed which require almost two months of the three month process.

### ADMINISTRATION

The administrative reviews on the application are as follows:

1. *Application, Administrative and Monitoring Procedures.* Berrien County Community Development Department ("BCCDD").
2. *Oversight.* Loan Administration Board ("LAB"). Appointed by the Berrien County Board of Commissioners ("County Board"), the LAB considers loan applications, sets terms and conditions, then forwards its recommendations to the Finance Committee of the County Board for review.
3. *County Board Review.* The Finance Committee of the County Board reviews the loan application then recommends action to the full County Board. The County Board then acts upon the loan application.
4. *State Review.* **CDBG loans only.** After approval by the County Board, the loan application must be submitted to the state for final approval. (**EDA** does not require this step.)

The Berrien County Community Development Department works closely with the financial institutions participating in such loans to ensure that there is uniformity of conditions, administration and monitoring.

## STANDARD REGULATIONS, TERMS AND CONDITIONS

The following items are standard for the RLF. Others may be added from time to time if deemed appropriate by the oversight boards.

1. *Amount of Loan.* No more than 1/3 of the total project amount may be funded by the RLF up to a maximum of \$200,000 per loan. Exception: **CDBG** can exceed that cap with approval from the state.
2. *\$-Per-Job Limit.* The amount of the RLF loan is further limited by a "\$-per-job" formula which is as follows:

**EDA:** \$10,000 may be loaned for each job created.

**CDBG:** \$35,000 may be loaned for each job created.

New jobs promised must be created within the two-year period immediately following the closing of the loan.

In some special circumstances, loans may be made on the basis of job retention and are also subject to the foregoing formula.

3. *Low/Mod Job Creation.* **CDBG loans only.** 51% of the new jobs created, or retained, must be available to "low and moderate" income people as identified by the U.S.

Department of Housing and Urban Development. This is the dollar amount that total household income can equal, as of date of hire, which is usually 80% of the county's median family income.

4. *Equity Participation.* The manufacturer must invest 10% equity into the project.

**EDA** may capture expenditures made nine months prior to application if related to the project.

**CDBG** requires new cash injection which cannot be placed in as such until the County Board holds a public hearing to approve the release of funds.

5. *Interest Rate and Term of Loan.* Loans have a flat rate of interest as established quarterly by the Loan Administration Board. Typical interest rates range between 5% to 7%. Terms of Loans are as follows:

Real Property	10 Years
Personal Property	7 to 10 Years
Working Capital	5 to 7 Years

All loans balloon three years after loan closing and must be either renegotiated or paid in full.

6. *Life Insurance.* The Principals must maintain life insurance policies during the term of the loan payable to the County in the principal amount of the loan.

7. *Loan Security.* The County, in general, holds a subordinate security position to the participating financial institution on the assets of the business.

8. *Personal Guaranty.* Any person holding 5% or more ownership in the business must provide the County with a personal guaranty, whether held at the time of the loan or acquired at any time during the term of the loan.
9. *Salary Caps.* Salaries of the owners/shareholders are capped at a level determined by the participating funding entities. An increase may only occur with prior approval of all participating funding entities.

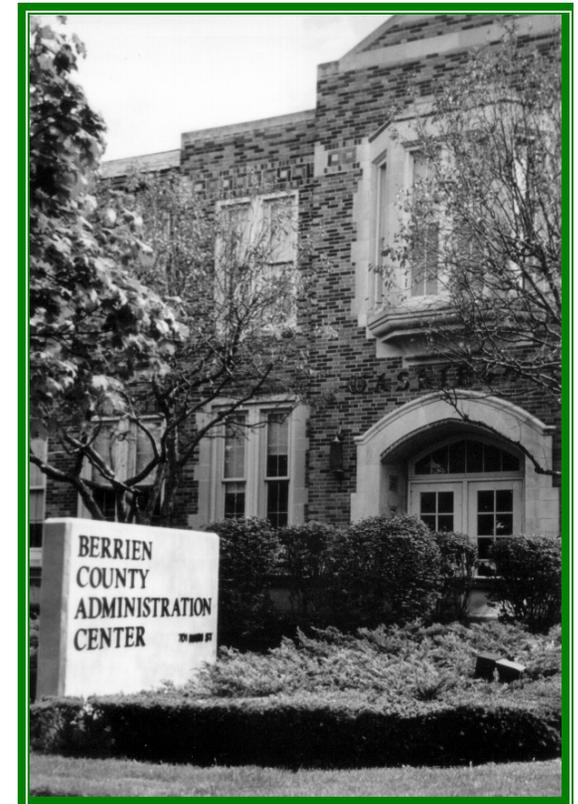


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Community Development Department*