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CDBG/HOME/ADDI PROGRAM POLICIES AND PROCEDURES MANUAL

SUBJECT: CDBG TECHNICAL ASSISTANCE AND LOANS TO MICROBUSINESSES

PURPOSE

The primary objective of Title I of the Housing and Community Development Act of 1974, as amended, is the development of viable urban communities. This is achieved by providing decent housing, a suitable living environment, and expanding economic opportunities. This program meets the national objective of assisting low-and-moderate-income persons.

This program meets the Dane County Consolidated Plan priorities of providing technical assistance for persons wanting to start a business and loans for microbusinesses to start-up or grow.

ELIGIBLE APPLICANTS

Eligible applicants to administer this program include: public and private organizations, agencies, and non-profit and for-profit organizations.

DEFINITIONS

A microenterprise is defined as a commercial enterprise that has five or fewer employees, one or more of whom owns the enterprise.

Persons developing microenterprises means, "such persons who have expressed interest and who are, or after an initial screening process are expected to be, actively working toward developing businesses, each of which is expected to be a microenterprise at the time it is formed" (24 CFR Part 570.201(o) (3).

ELIGIBLE MICROBUSINESSES

The existing or proposed business must be located in one of the participating municipalities of the Dane County Urban County Consortium.

The business assisted must meet one of the national objectives. This may be done by:

- a) assisting a microbusiness that provides services to a residential area that has 51% or more low-and-moderate income persons;
- b) providing assistance to a low-and-moderate income person who owns or is developing a microenterprise (Note, that once a person is determined to be low-and-moderate income, he/she may be presumed to continue to qualify as such for up to a three-year period.); or
- c) assisting a microenterprise that will create or retain jobs, 51% or more of which will benefit low-and-moderate income persons.

I. TECHNICAL ASSISTANCE REQUIREMENTS

- a) *Technical Assistance* relates to providing technical assistance, advice, and business support services to owners of microenterprises and persons developing microenterprises and includes, but is not limited to the following:
- Business education workshops
 - Outreach and individualized business assistance on business exploration and preparedness
 - Business plan preparation
 - Market assessment
 - Management, marketing, customer service, and record keeping
 - Before and after loan consultation
- b) A DUNS number must be provided for each business that is assisted.
- c) Data on the number of new and existing businesses assisted and demographic information related to the business owners must be reported.

II. LOAN REQUIREMENTS

ELIGIBLE LOAN APPLICANTS

In order to be considered for financing, applicants must meet the following requirements:

- Reside in one of the participating municipalities in the Dane County Urban County Consortium;
- Locate the business in one of the participating municipalities in the Dane County Urban County Consortium;
- Be an eligible for-profit microbusiness (see sections under Definitions and Eligible Microbusinesses) Businesses operating out of a residence are eligible.;
- Be legally capable of entering into a binding agreement;
- Be a U.S. Citizen or legally admitted resident alien;
- Have a completed business plan which includes a competitive market analysis;*
- Possess any necessary licenses, certifications, zoning, and permits to operate the proposed business at the time the loan is granted;*
- Demonstrate that the proposed project is viable and the business will have the economic ability to repay the funds;
- Have received technical assistance, business education, and/or have successful business experience*
- Be current on personal and business income taxes and student loans;*
- Be unable to obtain sufficient credit elsewhere for the proposed project.

ELIGIBLE USES OF LOAN FUNDS

Loans are for the establishment, stabilization, and expansion of microbusinesses. Funds may be used for machinery, equipment, furniture and fixtures, inventory, supplies, and working capital.

INELIGIBLE USES OF LOAN FUNDS

- Financing for political activities or to engage in other partisan political activities.
- Buildings for the general conduct of government.
- General government expenses are ineligible.
- Loans may not be used to purchase real estate or to refinance existing debt.
- Projects may not be residential in nature.
- Costs incurred prior to approval of the loan application.

LOAN FEATURES

Lending Limits:	The amount of the loan may be between \$100 and \$25,000.* A business may have more than one loan, however, the total amount of the outstanding loans may not exceed \$25,000.*
Terms:	Loans provided under the program shall have a maximum term of seven years.*
Interest Rate:	The interest rate may not exceed two points above the prime rate, as published in the <i>Wall Street Journal</i> at the time the loan is approved. *
Collateral Requirement:	All loan funds will be fully secured by collateral in order to maintain the revolving loan fund nature of the program. No unsecured loans will be made. The collateral will usually be in the form of liens on the assets financed including fixed assets such as machinery, accounts receivable, inventory, and lease assignments. Personal guarantees will be required of all persons/entities holding a 50% or more interest in the applicant's business. Types of collateral may include: <ul style="list-style-type: none">• Liens on real property,• Deeds of Trust,• Liens on machinery, equipment, or other fixtures,• Lease assignments, as appropriate;• Personal and/or corporate guarantees, as appropriate; and• Other collateral as appropriate.*
Prepayment Penalty	None
Deferral	Payment of interest and/or principal may be deferred for up to one year if merited in the loan application. Interest shall accrue during the deferment period and may be paid in full or added to the principal amount of the loan.*

LOAN UNDERWRITING*

Credit Requirements:	Cash flow must be sufficient to service debt. Satisfactory explanation of credit history.
Loan to Value Ratio:	95%
Debt Coverage Ratio:	1.1 – 1.25:1
Collateral:	Adequate collateral in a form acceptable to the CDBG Commission. Prefer 1:1 ratio.

LOAN REVIEW

Loans will be reviewed and acted upon by the CDBG Commission.*

LOAN APPROVAL CRITERIA*

Approval will be based on a number of factors including the following:

Strength of Business

Strength of business plan.
Experience of business owner(s).
Business skills and experience of business owner(s).
Location gap – need for business in a particular area
Financing gap.
Repayment ability.
Available collateral.
Equity participation; return on equity.
Reasonableness of costs and financial feasibility.
Acceptable risk.

LOAN PROJECT COSTS

Costs incurred by the administering agency in working with the loan applicant, such as assisting in the preparation of the business plan and marketing strategy, reviewing the loan application, etc. are considered activity delivery costs and may not be rolled into the loan.

FEDERAL OVERLAY REQUIREMENTS

Environmental Review Requirements – All CDBG funded projects are subject to environmental review. No work may begin until the County gives notice to proceed.

Labor Standard Requirements – If the loan will fund interior or exterior construction totaling \$2,000 or more, the construction contracts are subject to Federal Davis-Bacon Labor Standards and Minimum Wage Rates on the entire project.

Other Requirements – There are a number of other standards that may be applicable to these projects where CDBG funds are used. These may include but are not limited to: Acquisition, Procurement, Relocation and Anti-Displacement, Equal Employment Opportunity, Section 3, Debarment and Suspension, Conflict of Interest, and more.

REPORTING

- If the business meets the national objective of creating or retaining jobs, 51% or more of which will benefit low-and-moderate income persons, then a written agreement must be entered into with the assisted business to ensure that no job pirating has occurred and that the job requirements will be met.
- A DUNS number must be provided for each business that is assisted.
- Records must be maintained on and reported to the County regarding: type of jobs created (using Economic Development Administration) classifications; listing by job title of permanent jobs filled, which were initially held by/made available to low-and-moderate income persons; for each person hired or LMI business owner assisted, the demographics, household size, and annual income prior to hiring; of the jobs created, the number that have employee-sponsored health care.

* means this is not a CDBG requirement and may be adjusted by the Commission

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