

**CITY OF EAST GRAND FORKS  
ECONOMIC DEVELOPMENT AUTHORITY  
REVOLVING LOAN FUND**

**LENDING GUIDELINES**

**Background**

The City of East Grand Forks Revolving Loan Program (the “Revolving Loan Program”) was established with proceeds from several sources, including a grant of funds from the Minnesota Investment Fund (“MIF”) for the purpose of providing financial assistance to businesses which suffered physical and economic losses as a direct result of the flooding of April 1997, the Intermediary Relending Program of USDA Rural Development, Community Development Block Grant, and other sources. It is important to remember that the dollars generally remain subject to the original statutory, regulatory, and grant restrictions.

The purpose for the establishment of the Revolving Loan Program was partly to assist existing, formerly healthy businesses in meeting their financial needs, related to business re-establishment, brought about by physical losses and adverse economic impacts resulting from the April 1997 Red River Valley flooding and partly to provide assistance to businesses expanding within East Grand Forks and locating into the City, particularly in a highly competitive local market. The aim of the program is the retention and/or expansion of businesses which provide essential services and employment to the East Grand Forks community and the attraction of new businesses into the business community of the City of East of Grand Forks (the “City”). The City program is a gap financing program, not a primary financing program. As a gap financing program, it provides funding when other sources are inadequate.

**I. Purpose and Goals**

The purpose of the Revolving Loan Program is to provide financial and technical assistance for the creation and retention of employment and capital investment in the business. These objectives may be accomplished through the following means:

- A. creation or retention of regular private-sector jobs in order to create above-average economic growth consistent with environmental protection, which includes investments in technology and equipment that increase productivity and provide for a higher wage;
- B. stimulation or leverage of private investment to ensure economic renewal and competitiveness;
- C. increasing the local tax base, based on demonstrated measurable outcomes, to guarantee a diversified industry mix;
- D. improving the quality of existing jobs, based on increases in wages or improvements in the job duties, training, or education associated with those jobs;

E. improvement of employment and economic opportunity for citizens in the region to create a reasonable standard of living, consistent with federal and state guidelines on low- to moderate-income persons; and

F. stimulation of productivity growth through improved manufacturing or new technologies, including cold weather testing.

## **II. Eligible Projects**

Assistance must be evaluated on the existence of the following conditions:

A. creation of new jobs, retention of existing jobs, or improvements in the quality of existing jobs as measured by the wages, skills, or education associated with those jobs;

B. increase in the tax base;

C. the project can demonstrate that investment of public dollars induces the investment of private funds;

D. the project can demonstrate an excessive public infrastructure or improvement cost beyond the means of the affected community and private participants in the project;

E. the project provides higher wage levels to the community or will add value to current workforce skills;

F. the project supports the development of microenterprises, as defined by federal statutes, through financial assistance, technical assistance, advice, or business services;

G. whether assistance is necessary to retain existing business;

H. whether assistance is necessary to attract out-of-state business;

I. the project promotes or advances the green economy as defined in section 116J.437;

J. the project is located within the city limits of the City of East Grand Forks; and

K. the project would not happen “but for” the provision of public assistance.

A grant or loan cannot be made based solely on a finding that the conditions in clause (G), (H), or (J) exist. A finding must be made that a condition in clause (A), (B), (C), (D), (E), or (F) also exists. Funding will not be provided unless there is a finding that the condition in clause (K) has been met.

## **III. Eligible Borrowers**

- A. Existing or new businesses in the City of East Grand Forks.
- B. Borrower must demonstrate that funds from the Revolving Loan Program will not exceed a portion of the total cost of the project for which financing is sought as per Paragraph VIII.A.1.a.
- C. Businesses shall pay each employee total compensation, including benefits not mandated by law, that on an annualized basis is equal to at least 110% of the federal poverty level for a family of four or the minimum compensation set by the Minnesota Department of Employment and Economic Development, whichever is greater.
- D. Revolving Loan Program funds shall not be used for sports facilities or casinos. Assistance may be provided for firms engaged in retailing merchandise, provided such assistance is not prohibited by State law or regulations.

#### **IV. Eligible Activities:**

Loans may be provided for the following activities:

- A. Acquisition of Land
- B. Construction or Rehabilitation of Facilities
- C. Site Improvements
- D. Utilities or Infrastructure
- E. Machinery and Equipment
- F. Training
- G. Working Capital, not to exceed \$20,000

#### **V. Terms of Loan:**

- A. No loan shall be extended for a period exceeding 11 years. Principal payments on loans shall be made monthly. The initial principal payment may, if approved by the EDA, be deferred for not more than 1 year.
  - 1. Loans used for machinery and/or equipment purchases will generally not be extended for a period exceeding 10 years (11 years if the initial payment is deferred for a year).
  - 2. Loans used for working capital will generally not be extended for a period exceeding 5 years (6 years if the initial payment is deferred for a year).
- B. The terms of loan repayment shall be those stipulated in the loan agreement and/or promissory note. In the event of conflict between the documents, the terms of the loan agreement shall govern.

#### **VI. Interest on Loans:**

- A. Interest rates will be in accordance with the EDA's Loan Interest Rate Policy adopted by the EDA on September 1, 2015, as amended, as follows:
  - 1. Loans to manufacturing businesses which function as "primary" industries shall be 1% per annum.
  - 2. Loans to firms who combine manufacturing and non-manufacturing and serve a regional or larger market shall be 2.5% per annum.
  - 3. All other eligible loans shall be 4% per annum.
  - 4. The EDA shall maintain a list of the firms eligible for 1% and 2.5% loans.
- B. Loans may be deferred for a period of no longer than one year with no interest.
- C. Once the deferral period, if any, has lapsed monthly payments are required.
- D. Each payment by the recipient will be applied first to accrued interest and the balance of the payment, if any, will be applied to the principal balance.

## **VII. Security:**

- A. Adequate security shall be required for all loans, including but not limited to, corporate guaranties, personal guaranties, mortgage and/or a security agreement. Purchase for deed is not considered to be adequate security.
- B. All loans shall be secured with the best collateral available. Where necessary the EDA loan may take a subordinate collateral position to other lending sources upon approval by the Board of the EDA.

## **VIII. Loan Agreements and Requirements:**

- A. Each loan shall be supported by a loan agreement. The loan agreement shall specify the following :
  - 1. Amount of the loan.
    - a. The amount of the loan shall not exceed the following amounts:
      - 1. Industrial Projects for primary businesses: not more than the lesser of \$300,000 or thirty-three and one-third per centum (33 and 1/3%) of total project costs.
      - 2. Other projects: not more than the lesser of \$149,999 or thirty-three and one-third per centum (33 and 1/3%) of total project costs.
    - b. The amount of funding from the Revolving Loan Program shall not exceed the amount necessary to fill the "gap" between the actual total funds needed and the amount of other funds which are available. This determination will be made at the sole discretion of

the EDA.

- c. The loan amount is at the sole discretion of the EDA, subject to approval by the City Council.

2. Terms and Repayment Schedule.

- a. The loan will be repaid according to the lending guidelines.
- b. The recipient will pay a late charge of 10 percent of the payment due if the payment is not received within 45 calendar days following the due date. The late charge will be considered unpaid if not received within 60 calendar days of the missed due date for which it is imposed. Any unpaid late charge shall be added to principal and be due as an extra payment at the end of the term. Acceptance of a late charge does not constitute a waiver of default.

3. Disbursement Procedures.

- a. Disbursement of loan funds shall take place after the loan agreement and the promissory note are executed, payment of the loan origination fee and other applicable fees and costs, and any other conditions precedent to disbursement of funds have been fully satisfied.
- b. All required documentation shall have been received before any funds can be disbursed.
- c. Recipient shall apply their funds before loan funds are disbursed.
- d. In the event of interim disbursements, said disbursements shall be limited to not more than eighty per centum (80%) of work completed and shall be substantiated by contractor bills and supported by lien waivers prior to any disbursement.
- e. Final disbursement will be made only upon completion of all work and inspection(s) by a representative(s) of the lender. The owner or contractor shall submit a final bill certifying that all work has been completed and submit a final lien waiver.

4. Insurance Requirements.

- a. The recipient shall provide evidence of hazard insurance (fire and windstorm and extended coverage) in an amount sufficient to cover the amount of the loan.

- b. The recipient shall provide evidence of flood insurance coverage or evidence that the project is not in a flood plain.
  - c. Workers Compensation insurance, if required by the State of Minnesota.
  - d. The City of East Grand Forks and the EDA shall be named as additional insured on all insurance policies.
- 5. Other Required Documentation.
  - a. The applicant shall document that property taxes are current.
  - b. For existing businesses (corporate and non-corporate)
    - 1. 3 years of prior year's profit and loss statements (all borrowers)
    - 2. 3 years of prior year's financial statements (all borrowers)
    - 3. A 3 year projection (all borrowers)
    - 4. 2 years personal tax returns
    - 5. Articles of incorporation for corporations or other organizational documents for other business entities
    - 6. Copy of Corporate Charter (corporations) or comparable business formation documents (non—corporations)
    - 7. Employer Identification Number (EIN)
    - 8. Minnesota State Tax Number
    - 9. Corporation or entity resolution approving the financing and identifying who is authorized to sign documents and agreements

## **IX. Other Conditions**

### **A. Cost Reasonableness**

Applicants for funding from the Revolving Loan Program shall be required to submit a breakdown of all project costs to the EDA, including quotes from vendors, contracts, subcontractors, etc. The EDA will then use this breakdown as a basis on which the reasonableness of the cost is determined.

The EDA may, in its discretion, compare any cost element which exceeds \$10,000

with a third party fair market price quotation to determine reasonableness. If the EDA cannot use third-party price quotations to verify cost elements, then the City may conduct its own cost analysis using appropriate cost estimating manuals or services.

**B. Commitment of all Project Sources of Financing:**

The EDA shall verify, prior to committing Revolving Loan Program funds, that:

1. Sufficient sources of other funds have been identified to finance the project.
2. All participating parties have affirmed their intention to make funds available.
3. All the participating parties have the financial capacity to make the funds available.
4. For loan applications in which there are participating lenders as part of the project financing package, the participating lenders shall supply to the EDA a letter of intent to participate in the project funding along with copies of any supporting documents generated by the participating lender.

**C. Financial Feasibility of Project.**

The EDA shall, as part of the loan process, evaluate the financial viability of each project to determine if there is a reasonable chance for the project's success. A project will be considered financially viable if all of the assumptions about the project's market share, sales levels, growth potential, projections of revenue, project expenses and debt service (are determined to be realistic and met the project's breakeven point (which is generally the point at which all revenues are equal to all expenses). Generally speaking, an economic development project that does not reach this breakeven point over time is not financially feasible.

**X. Fees and Costs**

- A. Applicants shall pay any required legal fees, loan origination fees, loan closing fees, and/or application fees at the time of loan closing.
- B. The applicant is responsible for all hard loan costs, including by not limited to, title opinions, appraisals, recording fees and mortgage registration tax and shall pay the same at the time of loan closing.

**XI. Data Practices Act**

The information provided in an application to the EDA will be used to assess eligibility for financial assistance. The EDA will not be able to process your application without this

information. The Minnesota Government Data Practices Act (Minnesota Statutes, Chapter 13) governs whether the information that you are providing to the EDA is public or private. If financial assistance is provided for the project, the information submitted in connection with your application will become public, except for those items protected under Minnesota Statutes, Section 13.59, Subdivision 3(b) or Section 13.591, Subdivision 2.

## **XII. Business Subsidy**

All businesses receiving financial assistance from the EDA shall be subject to the EDA's Business Subsidy Policy, as amended, and Minnesota Statutes, Section 116J.993 to 116J.994, as amended (the "Minnesota Business Subsidy Act").

## **XIII. Conflict of Interest**

The applicant shall submit the name(s) or the owner(s), shareholder(s), partner(s), sole proprietor, corporation member(s), or other person(s) or business(es) with any financial interest in the project and its financing in order to preclude any conflict of interest in the RLF loan review and approval process.

## **XIV. Right of Refusal**

The EDA may deny any project which it deems inappropriate according to the guidelines established in this document and in accordance with the EDA's Application Evaluation Criteria attached to the loan application.

Adopted by the City Council of the City of East Grand Forks on \_\_\_\_\_, 2024  
Date of Public Hearing of City Council \_\_\_\_\_, 2024

Adopted by the Board of Commissioners of the Economic Development Authority on October 8, 2024  
Date of Public Hearing of Economic Development Authority: October 8, 2024

## Appendix A

### **ORIGINATION FEE POLICY**

Approved May 2017

The following shall apply to all loans:

- The fee shall be 1% of the loan amount
- The minimum fee shall be \$500
- Legal expenses shall be billed separately
- Mortgage registration tax to be paid by the party receiving the loan and not by the City/EDA
- The City/EDA shall only loan the net amount

## Appendix B

### **LOAN INTEREST RATE POLICY**

Approved July 2020

There shall be three levels of interest applied to loans.

- Loans to manufacturing businesses which function as “primary” industries shall be 1% per annum.
- Loans to firms who combine manufacturing and non-manufacturing and serve a regional or larger market shall be 2.5% per annum.
- All other eligible loans shall be 4% per annum.

The EDA may apply reduced rates to non-manufacturing businesses provided that said businesses are primary or anchor or because of exceptional circumstances, with the reasons for the reduced rate documented and made a part of the file.