

RLF Plan

Economic Development
Authority of the City of
Norfolk, Virginia

Washington, Sean

[THE NORFOLK REVOLVING LOAN FUND PLAN]

April 2019

The Norfolk Revolving Loan Fund

Revolving Loan Plan

The Norfolk Revolving Loan Fund has been developed to assist business and industry in the City of Norfolk by providing below market rate loans for the acquisition of fixed assets and equipment/machinery, for use in providing working capital and, in certain limited circumstances, refinancing existing debt.. Funding was originally provided with a \$300,000 grant awarded by the Economic Development Administration in 1997 in Award No.: 01-49-03642. The City of Norfolk contributed \$110,000, for an initial capitalization of \$410,000. Currently the Revolving Loan Fund is approximately \$640,000.

PART I: REVOLVING LOAN FUND STRATEGY

The Norfolk Revolving Loan Program will assist start-up and early stage businesses with priority granted to small, women-owned and minority-owned (SWAM), and low-to-moderate income(LMI) business owners in the City of Norfolk by providing below market rate loans for the acquisition or expansion of fixed assets and equipment, machinery and/or provision of working capital to expand employment for Norfolk citizens.

Regional Economic Development Strategy

Norfolk's Department of Development worked with regional groups to develop a new Comprehensive Economic Development Strategy (CEDS) for the Hampton Roads region. A team studied the economic conditions for the metropolitan region which was found to be critical for the ongoing viability of the regional economy in an ever-changing environment. As part of the 100 Resilient Cities Initiative, pioneered by the Rockefeller Foundation, a study outlined actions to help cities become more resilient to the physical, social, and economic challenges that are a growing part of the 21st century. The information provided in the study identifies a SWOT analysis that is Norfolk-specific within a regional context. The SWOT analysis was used as a baseline for participation in the preparation of an updated CEDS.

Working with HR&A Advisors and guided by stakeholder and community engagement efforts, Norfolk's Chief Resilience Officer and other senior members of staff identified a baseline analysis of current-state economic conditions. The results of that process is found below:

Strengths

- The East Coast's preeminent defense hub, with the Navy deeply entrenched
- Strategically located deep water port
- Downtown is the urban commercial core of the region
- Large set of neighborhoods that collectively create a strong, urban residential fabric
- Home to the region's major research university – Old Dominion University (ODU), as well as other educational assets including Eastern Virginia Medical School (EVMS) and Norfolk State University
- Waterfront access a strong amenity
- Home to region's only rail transit system
- Major hospital center serves regional population

- Committed core group of public, private and non-profit sector leadership focused on city and regional economic development

Weaknesses

- Endemic concentrated poverty in some City neighborhoods
- Public education system fails to equip students with necessary skills and is detrimental to the retention of workers with families
- Significant job losses compared to neighboring cities
- Lack of connections between new creative businesses and legacy corporations and industries
- Failure to tell the City's compelling story to a wide audience
- Uncoordinated regional economic policies and goals, yielding unfocused strategies for growth, multiple organizations working towards same goals in isolation, and misaligned incentives
- Historic lack of patenting activity has failed to attract outside investment in a reinforcing cycle
- Supply of quality affordable housing does not meet local resident needs
- Limited regulatory autonomy and ability to experiment with some economic development models as a strict Dillon's rule state

Opportunities

- Increasing demand for downtown, multi-family living in region creates opportunity for Norfolk, the region's urban core, to benefit from additional population growth
- Thousands of skilled workers leaving the military every year from Naval Station Norfolk
- Expansion of the Panama Canal, potential port development at Craney Island, and growth of ancillary port industries
- New economic development leadership team shifting economic development paradigm and expanding tool kit
- Continued expansion of The Tide, including into Virginia Beach, enhances the value of the whole network, while existing station areas offer transit-oriented development opportunities
- Support for new workforce development initiatives that better align with regional demand
- Emerging entrepreneurial community centered in City of Norfolk
- Concurrent resilience research efforts with the support of varied stakeholders, including 100 Resilient Cities, The Rockefeller Foundation, and ODU, could form platform for new resilience industry
- Ongoing rewrite of the city's zoning code and update of its comprehensive plan PlaNorfolk 2030
- Upcoming housing strategy presents opportunity to bolster public and affordable housing and investment in neighborhood improvements
- Military Circle, St. Paul's Quadrant, and Fort Norfolk represent potentially transformational projects that could help to define resilient development moving forward
- Diverse, well-educated international community drawn to the City by NATO, brings new perspectives and international connections

Threats

- Increasing rate of sea level rise and more frequent storms

- Over-reliance on sectors over which the City has limited control and that are at risk of downsizing, such as military and ancillary industries
- Eroding corporate presence and attendant high vacancies in Downtown as companies move to larger southern and mid-Atlantic cities, or neighboring cities with lower rents and greater land availability
- Longstanding fiscal stress relative to state and other cities in the region, and correspondent difficulty maintaining infrastructure quality, largely attributable to Norfolk's large share of non-taxable land and high intensity uses such as the port and Navy
- Industries with job gains have lower wages than industries with job losses
- Limited land to accommodate development could limit Norfolk's ability to benefit from growing industries such as the port
- Students leaving for college outside the region and not returning home to begin their careers
- Declining City capture of regional tourism market

The best hope for regional transformation and combating dependency in Hampton Roads are:

- Diversifying the economic base and developing new industry of the future;
- Gaining public support for and appreciation of the economic value of its regional assets.
- Maintaining and growing the three pillars of the regional economy – the port, tourism and its federal assets;
- Building on defense-related competencies that can be utilized in other industries;
- Leveraging technologies developed at local colleges, universities and federal labs as well as commercial entities; improving commerce derived from industry, all of which is dependent on transportation infrastructure; The region must make it easier for people and products to move within the region;
- Significantly increasing the quality of life for residents by leveraging the variety of attractions, such as the arts and culture, venues and performances to provide more recreational opportunities in the region.

The overriding goal for *Vision Hampton Roads* became:

With proper foresight, continuous planning, and dynamic economic development, Hampton Roads will be recognized internationally as a region fueled by Innovation, Intellectual and Human Capital, Infrastructure and a Sense of Place.

The City of Norfolk's Department of Development has created a *Comprehensive Economic Development Plan (CEDP)* and has identified a series of goals for economic development. The City of Norfolk's Comprehensive Economic Development Plan was endorsed by City Council in 2015. The goal of the CEDP is "growing a prosperous economy by design with long-term growth and development of Norfolk's employment base and labor force." The core strategy is to:

- Build a sustainable local economy that:
 - Affords access to opportunity for all Norfolk residents
 - Fosters vibrant mixed-income residential neighborhoods
 - Supports and expands our tax revenue base
 - Harnesses Norfolk's competitive advantages as a diverse urban center
- Create an environment that is favorable for, and invites investment

- Offers a strengthened brand

The CEDP focuses on the following four multi-disciplinary components.

Business Development through business attraction, retention and expansion of target clusters.

- *Business Attraction Core Activities*
 - Direct engagement of site and location consultants
 - Rigorous research into and targeting of companies exploring relocations
 - Responding to solicitations from companies seeking to relocate
 - Administration of industry- and sector-specific incentive overlay zones
 - Marketing missions in coordination with selected partners
- *Retention and Expansion Core Activities*
 - Administration of financing tools to help address the capital needs of expanding businesses
 - Management of a tiered NorfolkFirst program targeting local employers of all sizes
 - Leveraging City and Norfolk Redevelopment and Housing Authority (NRHA) owned sites for local company expansions
- *SWaM Core Activities*
 - Harnessing the City's purchasing/procurement for small business development
 - Strengthening/managing referral process and links with established technical assistance providers
- Target Clusters
 - Healthcare/Life Sciences
 - Maritime/Supply Chain
 - Defense/Cybersecurity
 - Innovation/Technology/Manufacturing
 - Headquarters
 - Policy Associations
 - Creative/Artisanal/Film
 - Retail
 - Renewable Energy/Resiliency

Revitalization & Redevelopment. Redevelopment of opportunity sites in priority target areas

- *Core Redevelopment/Revitalization Activities*
 - Develop Requests for Proposals as a means of soliciting developer partners for City or NRHA-owned properties
 - Work with property owners to encourage redevelopment of strategic, privately-owned assets
 - Develop and implement financing strategies to help bring projects to fruition
- *Neighborhood Commercial Areas Revitalization Core Activities*
 - Administration of loan and grant programs for façade improvement, marketing, etc.
 - Technical assistance for small businesses

Financial Services & Reinvestment

- Direct lending utilizing federal dollars
- Underwriting of “synthetic” and bond-based tax increment financing deals
- Capital “formation” and acquisition (e.g. community development venture capital, tax credits)

Workforce Innovation & Wealth Creation

- Assist in designing and overseeing adult workforce development programs in partnership with external organizations
- Conduct research on philanthropic prospects and help draft funding proposals to support City-initiated or sponsored workforce development and social enterprise programs and activities targeting low- and moderate-income individuals (e.g., vets, public housing residents)

Business Development Objectives and Financing needs of Targeted Businesses

The City of Norfolk and the Economic Development Authority of the City of Norfolk (EDA) are focused on providing access to capital to aid in the City’s development and revitalization and to create employment opportunities generated through new and expanding business activity. Originally funds were made available to just those businesses located in the Enterprise Community. In an effort to bring more benefit to City residents and businesses, the eligible lending area will be broadened to the entire city.

Evaluation of the S.W.O.T. analysis found in the 100 Resilient Cities study showed that many of the same issues identified in the last CEDS analysis still hold true today. It has been determined that the RLF needs to target locally owned and operated businesses that need assistance in obtaining financing for fixed assets and equipment/machinery as well as funding for working capital and, in certain limited circumstances refinancing existing debt. Emerging businesses have an even greater need for access to affordable capital supporting their business venture. The City’s Comprehensive Economic Development Plan has identified those target clusters that are critical to growth in the Norfolk market. The City will continue to identify publicly owned land and/or facilities to meet the business community’s need for expansion. The strategy is to make land available for the development of commercial and industrial facilities, work with existing businesses to expand, attract new businesses to commercial industrial properties and provide incentives to new and existing businesses in the form of loans and public improvements.

Objectives of the Business Development Strategy:

1. To attract new businesses, industry and commerce
2. To retain existing businesses in the City of Norfolk
3. To aid in the expansion of current Norfolk businesses
4. Provide support in the form of financing, tax relief, physical infrastructure, marketing and other assistance to promote growth and development of new and existing businesses in the Target Clusters.

Financing Strategy

1. Current Types of Financing Needs.

Micro and small early-stage businesses historically have difficulty obtaining financing for fixed assets, equipment/machinery and for working capital. If financing is available, often the down-payment requirements or loan terms prohibit some business's ability to move forward with these financing options.

2. Availability of Public and Private Financing.

There is a shortage of both private and public funding available to finance economic development in Norfolk. Norfolk will establish in the second quarter of 2019 a grant and/or loan "Capital Access Program" to support micro, start-up and very early stage companies with an emphasis on; 1) small women-owned and minority—owned businesses, 2) low- to moderate-income business owners and 3) businesses located in target areas

3. Financing Niche.

- (a) The RLF will finance small businesses with 1- 25 employees.
- (b) Fixed asset financing will be available for the purchase of real estate, machinery and equipment. Working capital financing will be available for those entrepreneurs who are in the early stages of their business life cycle. Refinancing of existing debt in combination with the financing of real estate, machinery/equipment and/or working capital when the RLF recipient demonstrates a "sound economic justification" for the refinancing (e.g., the refinancing will support additional capital investment intended to increase business activity).
- (c) The terms of the loan will be no more than ten years for machinery and equipment and no more than twenty years for real estate, with a fixed interest rate. Working Capital loan terms will be no more than five years. All terms will be based on the useful life of the assets being financed. A longer-term amortization schedule may be approved based on the credit analysis. For start-up companies the term of the loan will be three years but the amortization schedule of the loan may be for a longer period.
- (d) Terms will be flexible to meet the borrower's cash flow needs. Initial periods of interest-only payments will be considered for start-up operations and possibly to support business expansion.

4. RLF Impact.

The RLF, was originally capitalized at a total of \$410,000. The current balance available to fund approved loan requests is approximately \$640,000. We project making twenty(20) to forty (40) new loans creating a minimum of forty (40) new jobs.

Policy and Portfolio Standards

Loans from the RLF will be made available to existing businesses as well as new businesses. The financing structure for each loan will require a minimum of 5% cash injection from the borrower. The goal of the RLF is to create one (1) new, full-time permanent job for every \$15,000 loaned from the RLF. The overall objective is to create as many jobs as is feasible. For start-up businesses the owner who devotes full-time to the business shall be counted as a new, full-time permanent job.

Lending Criteria

Economic impact criteria used to evaluate proposed loans will include the borrower's repayment ability; the extent and amount of job creation the business will provide. In addition, the RLF will make loans to those businesses that cannot otherwise be funded through commercial loans at favorable terms and/or rates.

PART II: OPERATIONAL PROCEDURES

Portfolio Management Procedures

The Economic Development Authority of the City of Norfolk, Virginia will be the organization with primary responsibility for administering the RLF. The Economic Development Authority has entered into a Cooperation Agreement with the City of Norfolk to provide administrative support for specified operations of the RLF as outlined in this RLF Plan. The Economic Development Authority intends to contract with Virginia Community Capital (VCC) to provide additional support for specified operations of the RLF as outlined in the RLF the Plan. If the City of Norfolk or VCC are unable carry out all or a portion of their responsibilities, the Economic Development Authority reserves the prerogative to contract with a contractor(s) to provide additional support for specified operations of the RLF as outlined in this RLF Plan

The Economic Development Authority with the assistance of the staff of the City of Norfolk, will provide oversight over the program.

The City of Norfolk staff will be actively involved in marketing the RLF; in analysis of its use; and in determining how to improve its effectiveness in meeting the goals and objectives of the City of Norfolk.

The Economic Development Authority's attorney has legal experience in all aspects of commercial lending and will provide the legal support required in the operation of the RLF.

The City of Norfolk staff in conjunction with VCC staff will manage the RLF. The City of Norfolk staff will undertake; RLF marketing, loan origination, application analysis, credit memo preparation and loan approval recommendations. The Economic Development Authority in conjunction with City of Norfolk staff is responsible for delinquent loans, foreclosures and compliance with state and federal grant requirements. Loan closings and processing will be performed by the Economic Development Authority's attorney. Final loan approval will be determined by the Economic Development Authority.

VCC will perform streamlined underwriting to include: 1) Review of applicant P&L and balance sheets, 2) Credit score rating of guarantor, 3) Calculation of Loan-To-Value and other risk metrics and 3) Preparation of a streamlined credit memo with risk ratings. VCC will handle loan servicing to include: 1) Establish a dedicated Norfolk RLF deposit account at VCC Bank, 2) Book the RLF loans on the VCC system, 3) Disburse loan payments 3) Send invoices to the individual borrowers, 4) Collect payments from borrowers, 5) Apply payments towards the RLF loan balance and 6) Send standard reports to client (monthly, quarterly and annual reports and loan information).

City of Norfolk staff will review all documentation from applicants to include VCC underwriting analysis. The City of Norfolk staff may establish reasonable terms or conditions on any RLF loan request. Recommendations for approval or denial will be made to the Economic Development Authority Board of Directors.

Conflict of Interest

No Department of Development employee or member of the Economic Development Authority Board, member of the RLF Review Committee or other City board or City employee that advises, approves, recommends or otherwise participates in decisions concerning loans or the use of RLF funds, or person related to said persons by immediate family, law, or business arrangement, may receive any benefits

resulting from the use of RLF loan or grant funds. Immediate family is defined as parents, grandparents, siblings, children and grandchildren, but does not include more distant relatives, including cousins, unless they live in the same household. Exception: A benefit or loan may be conferred if the officer, employee, City Council member or other board or commission member affected first discloses to the Economic Development Authority Board on the public record the proposed or potential benefit and receives the Authority's Attorney's written determination that the benefit involved is not so substantial as to reflect adversely upon or affect the integrity of the RLF's decision process or of the services of the officer, employee, or member of the EDA Board. Economic Development Authority Board members are responsible for disclosing any possible conflict of interest that may exist with respect to a particular action of the loan approval.

Any Department of Development employee, or RLF Review Committee member, or Economic Development Authority officer, or member of the Economic Development Authority Board, or City employee shall not solicit or accept, directly or indirectly, any gift, gratuity, favor, entertainment or any other thing of monetary value, for him or herself or for another person, from any person or organization seeking to obtain a loan or any portion of the RLF funds. Former EDA Board members and/or officers are ineligible to apply for or receive loan or grant funds for a period of one year from the date of termination of his/her services. RLF Review Committee members that have other professional relationships (i.e., a banker with loan to borrower) with a prospective borrower cannot be present for deliberations, but may respond to questions from other members of the RLF Review Committee, to avoid the appearance of a conflict of interest. All Board members will be required to comply with local and state conflict of interest policies and filing requirements.

Loan Processing and Underwriting

1. Standard Loan Application Requirements - Each applicant for a RLF Loan will be required to provide the following information for review and analysis by the City of Norfolk and VCC staffs and by the RLF Review Committee:
 - All borrowers must complete and sign the relevant loan application specific to the investment program in which they are seeking financing. The applications are available on line at www.norfolkdevelopment.com or at the City of Norfolk's Department of Development offices..
 - All questions regarding the application should be directed to Norfolk Department of Development.
 - Borrower must provide the following for an application to be considered complete:
 - Signed Loan Application
 - Personal Resume for all principals with a 20% or greater ownership interest in the applying entity and key management.
 - Freedom of Information Act Disclosure should be acknowledged by authorized representative for the applicant as well as all principals with a 20% or greater ownership interest in the applying entity.
 - Completed Company Profile
 - Signed Business Debt Schedule
 - Personal Financial Statement for all principals with 20% or greater ownership interest in the applying entity. Personal Financial Statements should not be more than 90 days old.
 - 2 years signed business tax returns

- 2 years signed personal tax returns (for all principals with a 20% or greater ownership interest in the applying entity)
- The most recent years of company's CPA audited, reviewed or compiled financial statements (balance sheet, income statement & statement of cash flows), current year to date interims statement. CPA prepared financial statements are preferred. Exceptions may be made when an entity does not have CPA prepared statements.
- A business plan for any company that has been in existence less than 2 years. The business plan should provide detailed projections related to the entity and the project itself.
- Description of collateral
- Organizational documents: Norfolk Business License for sole proprietors; Partnership Agreement for partnerships; Articles of Organization for LLC along with operating agreement if there is more than one member; Articles of Incorporation and bylaws for corporations.
- Other related information as needed.

- Stamp all documents confidential.

2. Credit Reports. The RLF will also require a credit report for each borrower and the applicant must execute a form authorizing the City of Norfolk or VCC staff to obtain the necessary credit reports.

3. Appraisal Reports. The Norfolk RLF Review Committee may require an appraisal of the fair market value of the real estate to be financed prior to loan closing. The appraisal should support the estimated value of the property as contained in the loan application. Any appraisal provided to the City of Norfolk staff must be a full narrative appraisal that contains the three methods of computing fair market value (construction/income/comparable sales). The City of Norfolk staff will review the appraisal, discuss it with the Norfolk RLF Review Committee, if appropriate, and insure that the project being funded with RLF financing is supported by an accurate and comprehensive estimate of its collateral value.

4. Environmental Review. The borrower will be required to comply with all state and local environmental review requirements and all applicable Federal, state and local environmental standards. The City of Norfolk staff will visit and inspect each property proposed for RLF financing to determine if any potential environmental hazards exist. The condition and age of the existing property, its current and former use, and the nature and condition of neighboring adjacent uses will all be analyzed and considered. A determination will be made for additional inspection by a qualified inspector, as well as an environmental audit, as appropriate. If the potential exists for environmental problems with the property to be financed, a Phase I Environmental Report will be required of the borrower. The City of Norfolk will utilize the services of qualified personnel to review environmental questionnaires for compliance with the above. The City of Norfolk staff will review and consider the Phase I report and make a determination before a loan commitment letter is extended. The City of Norfolk staff will not recommend any loan where a potential exists for serious environmental problems or where the collateral value of the asset(s) to be financed would be compromised without proper mitigation or coordination with local and state agencies to address environmental concerns.

5. Standard Collateral Requirements. The RLF may require the personal guaranty of any owner holding a 20% or more interest in the business to be financed. The RLF may require

comprehensive hazard insurance naming the Economic Development Authority as a loss payee for each loan in an amount sufficient to insure the protection of the principal amount of the loan. The RLF Review Committee may require key man life and/or disability insurance on a case by case basis

A lender's title insurance policy will be required on each real estate property financed. The RLF may provide financing for fixed assets in combination with a commercial lender of the borrower's choosing.

6. Standard Equity Requirements. The RLF will make loans for the acquisition of fixed assets, machinery/equipment and working capital. The borrower must make an equity investment of at least 5% of the project cost. The 5% equity investment required may come from the personal assets of the borrower or the assets of the business to be assisted. The borrower must demonstrate the availability of the required 5% equity investment in the material submitted to the staff prior to submission to the Norfolk RLF Review Committee.

If the Norfolk RLF Review Committee may require additional equity investment over and above the above stated minimums.

7. Loan Write Up.

The City of Norfolk staff will provide the Norfolk RLF Review Committee a comprehensive loan write-up prior to the RLF Review Committee meeting. The loan write-up will summarize the key aspects of the proposed financing including:

1. Location of the project.
2. Detailed description of the borrower(s). A list of owners and their percentage of the business.
3. List the names and relationships of the guarantors to the owners of the business as appropriate.
4. Briefly describe the business.
5. Brief description of the loan request;
 - (a) Use of Funds by category.
 - (b) Loan request, the monthly amortization, and term.
 - (c) Interest rate.
6. Description of the collateral pledged for this loan, and indicate the secured position of the RLF
7. For non-real estate related assets, Invoices, Bill of Sale or other means to value the asset(s) being financed.
8. Detailed description of the purpose of the loan. Detail on the sources and uses of proceeds to complete the project.
9. Public Benefit: Describe the benefit of this loan in terms of jobs retained and/or created. Indicate the value of this borrower to the community. Jobs saved are defined as jobs that would be lost without RLF assistance. Indicate SWAM and/or LMI status.
10. Job/Cost Ratio: Divide the total loan amount by the number of jobs saved and/or created as a result of this loan.
11. Why the loan is necessary and appropriate
12. Financial Analysis that describes the Company's financial performance.
13. Credit Reports when obtained on the principals, guarantors, and company.
14. Discuss any environmental review and the results of any required Phase I or Phase II environmental study.

15. Recommendation based on analysis of the financial condition, ability to repay and community impact.

The City of Norfolk staff will also provide the RLF Review Committee a copy of the participating bank's internal credit/background analysis report, when available.

Loan Review Process

1. Applications shall be reviewed in the order received and based on readiness for the project to proceed. In the event that the loan funds requested exceed available funds, the following criteria will be used to determine which business(es) will be awarded the loan(s):
 - a. Eligibility of the applicants;
 - b. Eligibility of the project to be undertaken;
 - c. Evidence of the ability to repay the loan;
 - d. The extent to which the loan can be secured;
 - e. SWAM and/or LMI applicant
 - f. Impact on the community
 - g. The extent to which private funds are being leveraged;
 - h. The extent to which jobs are to be created, the type of jobs and wages;
 - i. Timing of the proposed expenditures
 - j. Length of time in business or experience
 - k. Other relevant factors as deemed appropriate by the RLF Review Committee, and Economic Development Authority as applicable.
2. Preliminary Review - City of Norfolk staff will review the application for completeness and verify the proposed project meets the minimum requirements provided for in this credit policy. Any exceptions must be documented. If the application is not complete, the applicant will be informed of the deficiencies.
3. Credit Analysis Review – Prior to the RLF Review Committee's review of the application, the City of Norfolk and VCC will prepare a credit analysis for each loan application.
4. Formal Review – The RLF Review Committee will meet to review an application and credit analysis package. The RLF Review Committee has the ability to determine if a proposal is acceptable for funding or not. The RLF Review Committee will make a recommendation to the Economic Development Authority Board. 5. Loan Approval - Based upon the recommendation of the RLF Review Committee the Economic Development Authority Board will issue a loan commitment letter to the applicant.

Federal Compliance

To ensure the loan activity or purpose is compliant with federal funding requirements, a designated representative from the City of Norfolk will seek guidance from the National Development Council and/or the City's CDBG Grant Administrator and/or the Federal EDA to verify compliance. Only those loans that are compliant with federal standards will be approved.

Scoring Evaluations of each RLF Review Committee member will be maintained and reviewed and approved at subsequent Economic Development Authority Board meetings. The Economic

Development Authority Board or City of Norfolk staff will notify each applicant in writing of the Economic Development Authority Board's decision. Those loans that are approved will receive a loan commitment letter stating the terms and conditions of the financing to be provided. The City of Norfolk staff will also provide the borrower with a listing of the information/documentation required for closing the RLF loan.

Loan Decline and Appeal Process

The Economic Development Authority Board will act upon recommendations for loan approval with the knowledge that the due diligence and underwriting on each loan has been completed, and upon reliance that the financial exhibits provided in the application are correct. When a loan is denied by the Economic Development Authority Board, an applicant may request further review. The applicant must provide additional information that addresses the concerns of the Economic Development Authority Board or RLF Review Committee about the proposed loan. However, the Economic Development Authority Board decisions on loans are final and binding and cannot be appealed to the City Council.

General Closing Requirements

The RLF will require that the borrower demonstrate evidence of total project cost at closing with paid invoices or a HUD settlement statement or revised cost estimates and execute a certificate of injection stipulating the amount of funds the borrower will personally or corporately invested in the project.

1. If applicable, the RLF will require copies of the borrower's bank commitment letter for permanent and interim financing, promissory note, first deed of trust, UCC filings, assignment of rents, if applicable, and other executed documents evidencing the bank's participation prior to loan closing.
2. Loan Closing Documentation Requirements.

The standard document checklist for closing will include the following:

- RLF commitment letter
- RLF executed Promissory Note, Deed of Trust, Loan Agreement
- Assurance of Compliance for Nondiscrimination and Agreement of Compliance (SBA Form 601)
- Use of Proceeds Form
- A statement of No Adverse Change in the Financial Condition of the Borrower
- Injection Certificate and Evidence of Injection
- Agreement of Prior Lienholder and Estoppel Letter, if applicable
- Permanent Loan Bank Note, if applicable
- Settlement Statement
- Certificate of Occupancy, if applicable
- Hazard, Life, Title, and Disability Insurance Documentation as required
- Deed of Bargain and Sale, if applicable

3. Loan Disbursement Requirements.
If the RLF loan is for machinery or heavy equipment, the borrower must take delivery of the asset to be financed and present the necessary invoice for payment before the RLF loan is disbursed.

The RLF will only disburse funds upon the satisfactory completion of construction and after all necessary documentation has been provided that the purchase and/or construction has indeed been completed in accordance with previously agreed upon terms and conditions and building plans.

After a loan is approved, a Loan Commitment Letter will be issued with the terms and conditions of the approved loan addressed to the borrower and guarantors. All parties involved in the loan transaction must execute the Commitment Letter. This executed letter becomes part of the loan documentation package. Before the loan is closed the Environmental Review Record for the project must be completed if applicable.

The Economic Development Authority attorney's office will draft the necessary loan documents. At a minimum there will be a promissory note, a loan agreement, a security agreement or any necessary documents to secure the loan with the approved collateral. Guarantee agreements will be required when the borrower is an entity and the related person(s)/entities are guaranteeing the loan. Other documentation may be required to perfect liens and security interests and to evidence other loan deliverables.

A designated representative from the City of Norfolk is accountable for ensuring that the loan documents conform to the RLF loan approval. The designated representative will work closely with the closing attorney and borrower to ensure a timely closing. A loan closing should occur within 30 to 45 days of a signed commitment letter, although commitments will be valid for up to 90 days.

Funds will be disbursed through the appropriate VCC loan fund and payments issued using standard operating procedures for check issuance for VCC.

If the application is not approved, the City of Norfolk will send a letter to the applicant stating the reasons for rejection.

Loan Documentation

Loan documents for individual loans will conform to the loan approval and shall be in compliance with all applicable laws. The documents will at a minimum address the following:

- **Financial Terms** – interest rate, term, conditions under which loan proceeds will be disbursed, and a prepayment clause.
- **Performance Commitments** – representations and warranties, covenants, events of default, remedies and enforcement.

The list above is not exhaustive and may be added to as necessary for individual loan requirements.

Records

Written records of all program activities, including Economic Development Authority Board meetings, RLF Review Committee meetings, loan applications and related documents shall be maintained in the appropriate files. All files shall be kept in a secure place with access limited to authorized personnel.

The following items shall be established and maintained in a loan file by the City of Norfolk acting on behalf of the Economic Development Authority:

1. Application: This will be kept in the loan file and includes the application, business financial statements, personal financial statements, business tax returns, personal tax returns, credit reports,

business plan documents and other supporting loan information submitted along with all applicable correspondence.

2. Credit Package: The loan file will include the credit memo and all supporting analysis needed to make a lending decision. The RLF Review Committee will review the credit package and will make a recommendation to the Economic Development Authority Board. Each loan file shall contain a copy of the signed approval document with the loan terms and conditions clearly delineated.
3. Loan Documentation: The loan file will contain copies of all the loan closing documents such as security instruments, the promissory note, loan agreement, security agreement, appraisals (collateral valuation documentation), and applicable correspondence. Original copies of legal documents will be maintained in a protected area.
4. Grant Compliance Tracking Information: All monitoring required to verify compliance with federal grant requirements will be performed annually at the time of the annual loan review. If the grant requires more frequent monitoring, the staff will follow the required schedule. Documentation will be maintained in the loan file.

Standard Lending Terms

1. **Equity or cash investments.**
The RLF borrower will provide a 5% cash injection based upon the total project cost for an existing business.
2. **Repayment terms.** Repayment terms for fixed assets, such as machinery and equipment, will be no more than ten years and no more than twenty years for the acquisition of or improvements to real estate. Working capital loans will have a maximum of five-year terms. A permanent loan commitment will be extended prior to construction or renovation of a building.
3. **Interest Rates**
The minimum interest rate will be one (1) percentage point above the LIBOR (London Interbank Offered Rate), one-year rate. The RLF Review Committee may establish a different rate based upon the credit analysis. In no event, will the maximum interest rate charged be more than ten percent (10%). The determined rate will be a fixed rate for the term of the loan.
4. **Required collateral for borrowers.** A personal guarantee may be required of all borrowers who have a 20% or more ownership interest in the business being assisted.
5. **Loan sizes.** The RLF will make loans with a minimum loan size of \$5,000 and a maximum loan size of \$50,000. Under exceptional circumstances the Board may approve a loan up to \$100,000, where a larger loan is necessary to assist in the expansion or attraction of business in a targeted industry cluster, with significant job creation. In any event, the RLF loans in each business category will be no more than 33% of the total loan portfolio.
6. **Uses of Capital.** The RLF will be targeted toward existing or new industrial, commercial, service and exporting businesses in the City of Norfolk. Funds from the RLF will be used to finance; fixed assets such as real estate, machinery/equipment and working capital for the business's operation. Priority will be given to applicants that are minority- or women-owned or low- to moderate-income. In extraordinary circumstances loans may

be used to refinance debt when the refinancing is in conjunction with financing of fixed assets such as real estate, machinery/equipment or working capital

7. **Restrictions on Use of Capital.** Consistent with Federal EDA regulations (13 CFR § 307.17) RLF capital may not be used for the following: (1) to acquire an equity position in a private business; (2) to subsidize interest payments on an existing RLF loan; (3) to provide for borrowers' required equity contributions under other Federal Agencies' loan programs; (4) to enable borrowers to acquire an interest in a business either through the purchase of stock or through the acquisition of assets, unless sufficient justification is provided in the loan documentation. Sufficient justification may include acquiring a business to save it from imminent closure or to acquire a business to facilitate a significant expansion or increase in investment with a significant increase in jobs. The potential economic benefits must be clearly consistent with the strategic objectives of the RLF; (5) to provide RLF loans to a borrower for the purpose of investing in interest-bearing accounts, certificates of deposit or any investment unrelated to the RLF; or (6) to refinance existing debt, unless the RLF recipient sufficiently demonstrates in the loan documentation a "sound economic justification" for the refinancing (e.g., the refinancing will support additional capital investment intended to increase business activities.

Interest Bearing Account

All RLF loan payments will be maintained and reported in a separate RLF account. Once loan payments are received they will be placed in an interest-bearing account until they are relent or expended on an eligible expense such as an annual audit. The RLF financial report will designate and make a careful distinction between, 1) repayment of principal and interest received on loans, 2) interest received on RLF funds invested on short-term basis until they are relent, and 3) late payment penalties and fees.

Revolving Loan Fund Income

RLF income will be used for the purpose of making loans or paying for eligible and reasonable administrative costs associated with the RLF's operations. RLF income will be used for administrative costs incurred in processing, servicing or sourcing existing and new loans. These costs will be reported in the semiannual reports to the Economic Development Authority. RLF income that is not used for administrative costs will be used for new loans.

Capital Utilization Standard

A Capitalization standard of seventy-five percent (75%) will be maintained for the revolving loan fund. Repayment and lending schedules will be monitored to ensure seventy-five percent (75%) of funds are in use for the duration of the program. Income earned during a reporting period is not included as RLF capital when calculating the capital utilization percentage.

Collections

Loan Payment and Collection Procedures. The RLF will encourage but not require a system of automatic payment withdrawals. For borrowers who do not participate in this system, a payment notice will be mailed monthly. The VCC staff will promptly account for and deposit all payments received in a federally insured RLF bank account.

Monitoring

The City of Norfolk staff will monitor each loan on a continuing basis to make sure that:

1. The asset financed is maintained in good condition.
2. That annual financial statements are provided by the borrower and reviewed for potential problems.
3. That an annual site visit is conducted to make sure the borrower is complying with all applicable RLF loan requirements and federal requirements.
4. That all required insurance is in place at all times and that Economic Development Authority is named as a loss payee.
5. That all UCC filings are in place and refiled as necessary to protect the interests of the RLF.

Foreclosures

Procedures for handling loans over 90 days in arrears. The City of Norfolk staff will discuss any loan 90 days or more in arrears with the Economic Development Authority and the private sector lender/bank. The City of Norfolk staff will take whatever steps are necessary and prudent to collect overdue payments, including but not limited to, instituting foreclosure proceedings so that the fixed asset can be sold to recover funds loaned and seeking a court judgment against the borrower(s) to recover the amount owed to the RLF from the personal resources of the borrower(s).

Write-off Procedures

The City of Norfolk staff will diligently and forcefully pursue recovery of all principal, accrued interest and late payment penalties. In those instances where despite the concerted efforts of the City of Norfolk staff and its attorneys, the RLF is not able to recover the amount owed, the City of Norfolk staff will report the amount unrecoverable to the Economic Development Authority Board as a loss and charge off this amount as a loan write-off.

Evidence of Fidelity Bond Coverage

EDA will maintain Fidelity coverage with an insurance provider. A copy of the policy declaration will be maintained and updated with the plan. The fidelity bond coverage for staff authorized to handle funds under the Grant award is in an amount up to \$500,000 single loss that is sufficient to protect the interests of the RLF as it exceeds original capitalization for the revolving loan program.

Accounting Principles

The Economic Development Authority, City of Norfolk and VCC operate in accordance with generally accepted accounting principles (GAAP) and follow governmental accounting standards board (GASB).

Part III: Administrative Procedures

LOAN ADMINISTRATION

Loan servicing begins immediately after the closing and continues for the term of the financing. The loan servicing function is a part of a proactive system which includes post loan review to ensure the continuing viability of the loan.

Loan records will be maintained and tracked using computer software.

the City of Norfolk staff is responsible for:

- Maintaining current information in the loan file.
- Collecting updated financial information (tax returns and/or financial statements) on an annual basis or more frequently if required in the loan agreement.
- Monitoring and receiving updated or renewed insurance coverage.
- Monitoring and receiving updated tax payment information (for real estate, personal property, and income).
- Monitoring and reviewing UCC Financial Statements (filing renewals or modifications as needed).
- Responding to Borrower's requests for modifications to the existing loan.
- Conducting formal and/or informal periodic site visits and phone calls.
- Conducting annual reviews.
- Providing periodic reports to the Economic Development Authority.

PERFORMANCE MONITORING

Private Leverage Commitments

The Economic Development Authority and the City of Norfolk reserves the right to monitor the use of funds and expenditures of the private leverage commitment. Documentation may include invoices or receipts for materials and supplies, letters from lenders, documents of conveyance, and canceled checks.

Hiring of New Employees

The City of Norfolk shall monitor the borrower's progress in meeting agreed-upon job creation or retention goals. Failure of the business to provide the targeted number of Low-to-Moderate Income (LMI) level jobs, if appropriate, may be a condition of default unless the business can show it made a good faith effort to create the targeted number of LMI jobs, but did not succeed due to reasons beyond its control.

Annual Review

In order for an Annual Review to be an effective management tool, it must be performed within 90 to 120 days of a Borrower's fiscal year end. If the Borrower has filed an extension on its tax returns, a copy of the extension should be maintained in the file. The purpose of the annual review is to:

1. Determine if there has been a change in the Borrower's financial position which could affect repayment ability;
2. Determine if there has been a violation of any loan covenant;
3. Determine if there has been any material change in the collateral and guarantees securing the loan which threatens the collateral coverage;
4. If necessary, provide a platform from which an Action Plan can be developed with the borrower which will address or remedy any outstanding deficiencies.

Annual Review Steps

1. Collecting financial statements and information on an annual basis (to include an updated Personal Financial Statement for all borrowers/guarantors);
2. Performing updated personal and corporate credit checks as needed;
3. Comparing financial information and performance against loan covenants;
4. Perform a site visit to interview borrower, check collateral and review financial analysis;
5. Preparing an annual loan review report to include that information gathered in steps 1-4;
6. Review the annual report with the Economic Development Authority Board.

Events of Default

Upon the occurrence of an event of default, a designated representative from the City of Norfolk along with a representative from the Economic Development Authority's Counsel or an appointed representative will seek timely cure, and absent a cure, remedy.

Use of Repayments and Reporting

Repaid loans shall be re-deposited into the RLF account from which it was disbursed and used in a manner consistent with this policy manual. A separate accounting record for each loan shall be kept to account for all funds loaned. The City of Norfolk shall submit annual reports to the Economic Development Authority as prescribed by federal requirements for compliance. The City of Norfolk shall submit a Revolving Loan Fund Semi-Annual Financial Report (ED-209) as required.

GRANT COMPLIANCE

Procedures for Complying with EDA Reporting Requirements.

City of Norfolk Staff maintain all RLF financial records and will receive and account for all payments made on RLF loans.

All RLF loan payments will be maintained and reported in a separate RLF account. Once loan payments are received they will be placed in an interest-bearing account until they are relent or expended on an eligible expense such as an annual audit. The RLF financial report will designate and make a careful distinction between repayment of principal, interest received on loans, interest received on RLF funds invested on a short-term basis until they are relent, and late payment penalties on fees.

Grantee Control Procedures for Ensuring Compliance with all Grant Requirements and for Monitoring the RLF Portfolio. The City of Norfolk staff will continually monitor the RLF loan portfolio to ensure that all terms and conditions of the RLF loan are complied with and that the borrower is in compliance with all applicable RLF/EDA codes and regulations. The City of Norfolk staff will coordinate with the Economic Development Administration staff, to review grant requirements and to go over the loan program and loan portfolio so as to make sure that all grant requirements are met.

The loan agreement shall contain covenants that shall require the borrower to comply with the Federal statutory and regulatory requirements that apply to activities carried out with RLF loans. The loan agreement shall contain a provision to protect and hold the Federal government harmless from and against all liabilities that the Government may incur as a result of providing an award to assist (directly or indirectly) in site preparation or construction as well as the renovation or repair of any facility or site. This applies to the extent that such liabilities are incurred because

of ground water, surface, soil or other conditions caused by operations of the RLF Recipient or any of its predecessors on the property. The loan agreement shall also include a list of the Federal requirements that apply to RLF Borrowers as provided in U.S. Department of Commerce Economic Development Administration *Revolving Loan Fund Standard Terms and Conditions, Part III. Lending Restrictions and Borrower Requirement*.