

Franklin County First Fund (FCFF)

Direct Loan & Loan Guaranty

Program Guidelines

Franklin County Area Development Corporation
1900 Wayne Road
Chambersburg, PA 17202
Phone: (717) 263-8282
Fax: (717) 263-0662
Email: info@fcadc.com

Current as of February 1, 2010

DIRECT LOAN PROGRAM

- I. **Statement of Purpose...**The Franklin County First Fund (FCFF) originated through a grant from the U.S. Department of Commerce, Economic Development Administration (EDA), and a local "match" from the Franklin County Area Development Corporation (FCADC). The FCFF is intended to foster the start-up, expansion, and retention of small businesses for the purpose of stimulating job creating economic growth throughout Franklin County, Pennsylvania. The FCFF provides low-interest loans to small businesses in conjunction with equity, bank financing, and/or other private and public sources.

The FCFF is administered by the FCADC staff, who is responsible for the marketing, packaging, and servicing of all loans.

- II. **Area Eligibility...**FCFF borrowers must be located or agree to locate within Franklin County or Shippensburg Borough (Cumberland County), Pennsylvania prior to the disbursement of the loan.

- III. **Eligible Borrowers...**To qualify for financing through the FCFF, a business must be for-profit, have one hundred (100) or fewer employees (including any related or affiliated businesses), and reflect a tangible net worth of less than \$2,000,000 at the time of application.

- IV. **Eligible Activities/Costs:**

Real Estate:

- **Land...** Those costs which include acquisition, site preparation, environmental testing, utilities, site mapping, legal, and other related costs.
- **Building...** Those costs which include building acquisition, construction, renovation, engineering, architectural, legal, and other related costs.

Machinery and Equipment... Those costs which include the purchase, delivery, and installation of machinery and equipment directly related to the operation of the business.

- V. **Ineligible Activities/Costs**

Refinancing...FCFF loans generally cannot be used for refinancing of business debt, however, there are some cases in which refinancing can be considered if it is less than 15% of the total project cost. **The refinancing of personal debt is strictly prohibited.**

Investor-Developer...FCFF loans cannot be used for real estate speculation. Generally, the beneficial owner of the real estate of a project site must have an aggregate ownership in the industrial occupant of not less than seventy percent (70%).

Supplanting Private Sector Capital... FCFF loans shall not supplant private sector capital where such financing is readily available at reasonably available terms and conditions. FCFF loans are made to encourage private investment by reducing financing risk to private lenders.

VI. Loan Parameters

Loan Size... The minimum and maximum loan amounts are established by the FCADC Board of Directors and can be modified at its discretion. The FCFF shall not exceed 50% of the total project cost. The minimum loan amount shall not be less than \$25,000 and the maximum loan amount shall not exceed \$75,000.

Interest Rates... The FCADC Board of Directors shall establish the FCFF interest rate. The interest rate shall be 75% of the current prime rate as quoted in the Wall Street Journal on the date of the loan approval or four percent (4%), whichever is greater. In no event shall the interest rate be less than four percent (4%).

Terms... The loan term is dependent on the asset to be financed. Depending on the loan amount, real estate may have a repayment period of up to fifteen (15) years. Those loans used for leasehold improvements to real estate will have a repayment term co-terminus with that of the property lease, not to exceed ten (10) years. Loans for machinery and equipment may have a repayment period of up to seven (7) years. More specific term information is as follows:

- **Real Estate Loans of \$50,000 or less** will only be considered for a ten (10) year term with an interest rate adjustment on the 61st month.
- **Real Estate Loans of \$50,001 - \$75,000** will be considered for a fifteen (15) year term with an interest rate adjustment on the 91st month.
- **Machinery & Equipment Loans of up to \$37,500** cannot have a term exceeding five (5) years.
- **Machinery & Equipment Loans of \$37,501 - \$75,000** cannot have a term exceeding seven (7) years.

Private Sector Investment... FCFF loans will be made in conjunction with a private sector lender, equity from the owners or investors, or other private sources.

Equity Participation... The applicant is expected to make an equity contribution to the total project cost of at least 10%.

Subordination of FCFF Loans... The FCFF loan shall take a subordinated lien position to conventional lenders including but not limited to, banks, state and federal agencies.

Loan Security... All loans must be secured at the highest lien position available on one or more of the following assets: real estate including land and building(s); machinery and

equipment; and/or other assets being financed. In addition, the FCFF will generally require a corporate guaranty or its equivalent and the personal guaranty of the principal(s). The FCFF must have a collateral position on the assets being financed unless otherwise specifically waived. The collateral value must reflect a Loan-To-Value (LTV) ratio that does not exceed 90%.

Loan Payments... Loan payments shall be automatically withdrawn on the first of each month utilizing the ACH payment method (i.e. automatic withdrawal). Should the borrower choose not to use the ACH payment method, the loan interest rate will be increased a quarter percent (0.25%).

Payment Deferrals... The FCADC Board of Directors may grant payment deferrals of loan principal for periods up to six (6) months. Such requests must be made in writing to the FCADC for consideration by the FCADC Loan Review Committee.

Fees... The FCADC will charge reasonable and customary fees as established by the FCADC Board of Directors for the processing and administration of FCFF loans. Such fees shall include, but not necessarily be limited to an application fee, annual loan servicing fee, and the reimbursement of FCADC legal expenses associated with the closing of the FCFF loan. Additionally, should the FCADC be required to take action to protect its interest(s), the borrower shall be responsible for reimbursement of all FCADC legal expenses. A list of fees is attached to the program guidelines.

VII. Penalties

- Failure to meet any of the terms and conditions of the loan may result in an increase in the interest rate as determined by the FCADC Board of Directors, however such increases shall not exceed two percent (2%) above the existing prime rate as published in the Wall Street Journal.
- The FCADC will charge the borrower a fee equal to its incurred bank charges plus a \$10.00 processing fee for each occurrence of a returned check.
- Any material misrepresentation of information may be cause for rejection of an FCFF application and may result in the applicant being referred to the appropriate authorities for criminal investigation.

VIII. Conditions of the Loan

- Loan recipients must generate one (1) new full-time equivalent job, within three (3) years of the loan closing anniversary, for every twenty-five thousand dollars (\$25,000) borrowed from the FCFF. (A full-time equivalent job is defined as 2,080 hours of compensated work per year.) Businesses engaged in production agriculture shall not be subject to employment thresholds.
- Matching private lending sources, which are subordinate to the FCFF lien position, must have equivalent or longer terms than the FCFF loan.

- An applicant may place orders, sign sales agreements, and make security deposits on machinery & equipment and/or real estate prior to FCADC approval without prejudicing the review of its application. **IN THESE INSTANCES, THE APPLICANT IS PROCEEDING AT ITS OWN RISK.**
- **An applicant may not receive more than the maximum loan amount established for the FCFF during the twelve (12) month period from the date of the last FCFF disbursement.**
- No more than forty-nine (49%) of the real estate portion of a project may be leased to an unrelated third party without prior **written** consent of the FCADC.
- The applicant and/or principal(s) shall **not** be delinquent or in default on any existing private or publicly financed loans at the time of application and loan closing.
- The applicant and/or principal(s) shall be current in the payment of all applicable federal, state, and local taxes at the time of application and loan closing.
- **Applicants are required to notify the FCADC staff of any material changes to the application that causes it to become inaccurate or misleading.** If a project is approved and it is subsequently determined that the application contained material misrepresentations, or that the loan proceeds were used for ineligible activities, the loan will be considered in default and subject to immediate recall. In addition, the borrower may be referred to the appropriate authorities for criminal investigation.
- Applicants who apply for or receive assistance through the FCFF, upon reasonable request of the FCADC, shall permit duly authorized representatives of the FCADC to inspect the plant, books, and records of the business.
- Waivers of policies may be considered on a case-by-case basis.

IX. Application Procedures

- The applicant shall submit the FCFF loan application to the FCADC at 1900 Wayne Road, Chambersburg, PA 17202. The required application materials are included on the Loan Application Checklist, which is attached to the guidelines. No loan application will be presented without the borrower having met with FCADC staff prior to the loan presentation. **All application materials must be received by the FCADC staff not less than 10 calendar days prior to the next regularly scheduled Loan Review Committee meeting.**
- The FCADC staff will review the application to ensure that it meets the basic eligibility criterion for the FCFF. The staff will perform an administrative review of each application to ensure completeness, eligibility, and conformance with statutes, guidelines, policies, and other matters related to the FCFF.

- The FCADC, through its Loan Review Committee, will conduct a thorough credit analysis and make determinations of collateral security in accordance with commercially acceptable evaluation criterion.
- The FCADC will make every effort to approve or reject loan applications and formally notify applicants within 30 days of receipt of the completed loan application.
- Upon formal acceptance by the applicant of the FCADC's commitment to loan funds, the funds shall be encumbered. A request for disbursement may then be made.
- Prior to the FCADC scheduling a loan closing date, the borrower will certify to the FCADC that:
 1. All sources of funding are in place and that the use of those funds remain unchanged from those identified in the commitment letter;
 2. All required documents as outlined in the FCFF commitment letter have been provided to the FCADC;
- Any material changes to an approved application involving a change of collateral or terms must be reviewed and approved by the FCADC Loan Review Committee. Depending on the nature of the change, the FCADC reserves the right to assess the borrower a reasonable and customary fee.
- The FCADC will close the loan using commercially accepted closing documents.

X. Disbursement Procedures

- Funds will be disbursed at the loan closing between the FCADC and Borrower, unless other mutually agreeable arrangements are made.
- Interest on the loan will begin to accrue commencing on the closing date to the first day of the following month. Principal and interest payments are due the first day of the following month thereafter. (For example, if a loan closing takes place on January 15th, then the first payment would be due on March 1st.)

XI. Evaluation Criteria

- **Business Evaluation...**The historical performance of an existing business will be evaluated to assess its ability to repay the FCFF loan. Specifically, the evaluation shall include:
 - **Financial Performance of the Business...**This involves an evaluation of the prior three (3) years financial performance including an examination of income statements, balance sheets, cash flow statements, and notes to the financial statements.

Financial statements should be prepared by an independent certified public accountant. If the applicant's internal financial statements are submitted, the preparer's qualifications should be provided. Internally prepared financial statements should include appropriate notes. If the most recent year-end financial statement is more than six (6) months old, an interim statement shall be submitted.

Payment on notes payable to officers and investors who are applying for funds will be required to be subordinated and amortized at a term equal to or greater than the FCFF loan term. If the FCFF loan is in a delinquent or default status, the FCADC reserves the right to require suspension of payments to all officers, principals, or shareholders.

Notes receivable from officers and shareholders reflected on the applicant's balance sheet should be repaid prior to loan disbursement.

- **Personal Financial Statement...** Principal(s) with at least 20% or greater ownership in the business must provide a personal financial statement that is current within six (6) months of the date of the application. Such personal financial statements should be signed and dated.
- **Market Performance...** This involves an evaluation of the applicant's current and projected market share.
- **Management Ability...** This involves an evaluation of the experience and skills of the proprietor, partners, or directors. Included in the evaluation is an assessment of the general business experience as well as specialized experiences in the particular industry. Resumes of all principals with twenty percent (20%) ownership as well as company officers and plant managers should be provided.
- **Start-Up Businesses...** Newly formed enterprises are eligible to apply as long as they meet all FCFF eligibility requirements. Start-Up business applicants must provide a professionally prepared business plan demonstrating management and industry experience or expertise, along with expectations for a strong potential market for their product or service. The business plan shall include a **three (3) year pro-forma financial projection**.
- **Project Criterion...** The merits of the proposed uses of funds will be assessed to determine the ability to repay the loan. Specifically, the evaluation will include:
 - **Projected Sales and Revenues...** This involves an assessment of the validity and risk of the sales and revenue projections.
 - **Financial Statement Analysis...** The applicant shall provide the FCADC Loan Review Committee with necessary historical and projected financial statements such that an informed credit decision can be made. For established businesses, the three (3) most previous years of financial statements are required as well as a one year projection. For a start-up business, a three (3) year pro-forma financial projection is required.

- **Value of the Assets and Collateral...** Appraisals, when appropriate, will be required to assist the FCADC in evaluating its ability to secure the loan. All loans will be secured by the highest priority lien position on collateral. For production agriculture loans, the FCADC will not collateralize its loan with livestock. The applicant must provide evidence to the FCADC that all collateral is covered with adequate insurance designating the FCADC as loss payee and/or mortgagee. Projects involving the acquisition of existing buildings will generally be required to submit one current independent appraisal or an appraisal brief as prepared by a Pennsylvania certified real estate appraiser. In addition, a Phase I Environmental Assessment will generally be required, unless the applicant can certify that the land and building is free of any environmental contamination.
- **Changes in Market Strategy and/or Management Strategy...** Any significant changes in the business plan, market strategy, or management team prior to the FCFF loan disbursement must be reviewed and approved by the FCADC Loan Review Committee.
- **Public Benefit Criterion...** All applications will be evaluated to analyze the potential public benefit of the project, which shall include:
 1. The total number of full-time equivalent jobs to be created and/or retained;
 2. The number of full-time equivalent jobs to be created and/or retained per FCFF dollar invested; and
 3. The private investment to be leveraged as a result of the FCFF loan.

XII. Important Notice's

- All application materials are used to evaluate the loan and shall remain confidential.
- The FCFF is funded solely through the repayment of outstanding loans. The demand for funds generally exceeds the current availability, and as a result **it can take up to six months...and sometimes longer...to close loans.** The loans are closed in the order in which they are approved. To accommodate the situation, many lenders are willing to “bridge” the FCFF commitment until such time that the loan can be closed.
- The FCFF loan can be repaid without any repayment penalties.

FCFF LOAN GUARANTY PROGRAM

Applications: The FCFF Loan Guaranty program is modeled after a similar program by the Small Business Administration (SBA). Conventional lenders shall complete and submit the FCFF Loan Guaranty application to the FCADC office. The application will be presented by the lender's loan officer to the FCADC Loan Review Committee for consideration of approval.

Loan Guaranty Program:

- **Loan Guaranty Amount...**The FCFF Loan Guaranty shall be used to encourage lenders to make loans to small businesses. The FCFF can guaranty up to 75% of the lenders loan loss, not to exceed \$100,000.
- **Loan Interest Rate...**To be determined by the lender.
- **Loan Term...**To be determined by the lender and acceptable to the FCADC Loan Review Committee.
- **Loan Guaranty Fee...**The FCADC shall charge an annual fee of 1% of the outstanding loan balance commencing on the anniversary of the loan closing date. The Loan Guaranty fee shall be assessed and remitted to the FCADC by the lender. The borrower shall be responsible for any FCADC legal fees that may be required as part of a Loan Guaranty agreement.
- **Loan Reporting...**The FCADC reserves the right to require appropriate annual and interim financial statements for each loan.
- **The aggregate amount of outstanding FCADC Loan Guarantees shall not exceed \$1,250,000.**

Area Eligibility: FCFF Loan Guaranty borrowers must be located or agree to locate within Franklin County or Shippensburg Borough (Cumberland County), Pennsylvania prior to the disbursement of the loan.

Eligible Borrowers: To qualify for financing through the FCFF, a business must be for-profit, have one hundred (100) or fewer employees (including any related or affiliated businesses), and reflect a tangible net worth of less than \$2,000,000 at the time of application.

Eligible Activities/Costs:

Real Estate:

- **Land...** Those costs which include acquisition, site preparation, environmental testing, utilities, site mapping, legal, and other related costs.
- **Building...** Those costs which include building acquisition, construction, renovation, engineering, architectural, legal, and other related costs.

Machinery and Equipment... Those costs which include the purchase, delivery, and installation of machinery and equipment directly related to the operation of the business.

Working Capital... Those costs which support business growth and expansion and include, but are not limited to inventory purchases, hiring of new personnel, and training costs.

Ineligible Activities/Costs:

Refinancing... The refinancing of existing business and personal debt is *generally* prohibited.

Investor-Developer... FCFF loan guaranty cannot be used for real estate speculation.

FEE STRUCTURE

**FRANKLIN COUNTY FIRST FUND (FCFF)
DIRECT LOAN PROGRAM**

Application (Non-Refundable)\$350
(Due at the time of the Loan Review Committee Meeting)

Legal Closing Costs \$500-\$650
(Due at the time of the loan closing)

Annual Loan Servicing Fee \$150 per year (Until the Loan is Paid In Full)

*****Should any changes take place to the proposed loan project
(i.e.; change in borrower name, collateral, guarantors, etc.)
after the approval of the application by the FCADC Loan Review Committee,
the FCADC will assess a fee of not less than \$100.00.*****

I acknowledge that I have received a copy of the FCFF Guidelines and I have reviewed the fee structure. By my signature, I acknowledge that should my application be presented to the FCADC Loan Review Committee, I am responsible for payment.

Name

Company Name

Date

Effective 02/01/10

FEE STRUCTURE

**FRANKLIN COUNTY FIRST FUND (FCFF)
LOAN GUARANTY PROGRAM**

Application \$150

FCADC Legal Closing Costs Not to exceed \$250 (If Applicable)

Annual Loan Guaranty Fee 1% of the outstanding loan balance on the date of the loan closing. **The fee shall be assessed and remitted by the lender.**

By signing below, I acknowledge and understand the FCFF Loan Guaranty Fee structure.

Conventional Lender Name

Bank Name

Date

Effective 02/01/10