CITY OF LORAIN EDA TITLE IX
REVOLVING LOAN FUND PLAN
APPROVED 7/10/1997
EDA TITLE IX

REVOLVING LOAN FUND

PLAN

Submitted to: U.S. Department of Commerce

Economic Development Administration

Submitted by: City of Lorain, Ohio

Department of Community Development

Approved 7/10/97
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PART I:

THE REVOLVING LOAN FUND STRATEGY
A. ECONOMIC ADJUSTMENT PROGRAM OVERVIEW

The Economic Adjustment Problem

While the majority of the Nation experiences an upturn in its economy, the economics of highly industrialized communities such as the City of Lorain continue to be severely depressed. Lorain’s past history of its overall dependency on the primary metals and heavy manufacturing industries -- industries most seriously affected during the recession of the late 70's and early 80's -- continues to result in a very serious unemployment situation.

Lorain’s major employers, U.S. Steel (USX) and Ford, account for a permanent loss of 6,728 jobs in the 1980's; these companies will never recover totally and recall workers. In early 1997, the Ford Motor Company announced that it would be phasing out the Thunderbird model at the Lorain Assembly Plant, resulting in the closure of half the plant in September. The dependency on these two employers over the years created a serious lack of initiative to diversify the area’s industrial base, especially in the City of Lorain; and thus high unemployment continues to be difficult to overcome. As of February 1997, the unemployment rate for the City of Lorain stood at 13.0% highest rate in Lorain County. At the same time, the national unemployment rate stood at 5.7% and the State of Ohio rate at 5.9%. Between 1983 to present, there has been a loss of approximately 16 major industrial and manufacturing operations due to plant closings or relocation, resulting in an overall loss of more than 1,400 jobs.
While permanent job loss in the City of Lorain continues, it generally continues at a slower rate than experienced in the first part of the decade. This decline in job loss is due to aggressive efforts by the City to retain and attract companies and assist start-up businesses through flexible government loan programs, public utility incentives and other City of Lorain and Lorain County Chamber of Commerce activities.

The City of Lorain has experienced long-term protracted economic distress over the past 20 years, which has manifested itself in a variety of negative statistical benchmarks, including a net population decrease from 1980-1990 of 5.5%, or 4,171 persons, from a 1980 population of 75,416 to a 1990 population of 71,245. Unemployment rates in the City of Lorain have been consistently higher than average rates for both the State of Ohio and the United States as a whole as the following tables illustrate:

<table>
<thead>
<tr>
<th>Year</th>
<th>City of Lorain</th>
<th>State of Ohio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>12.3%</td>
<td>6.4%</td>
</tr>
<tr>
<td>1992</td>
<td>12.6%</td>
<td>7.2%</td>
</tr>
<tr>
<td>1993</td>
<td>9.6%</td>
<td>6.5%</td>
</tr>
<tr>
<td>1994</td>
<td>8.5%</td>
<td>5.5%</td>
</tr>
<tr>
<td>1995</td>
<td>9.2%</td>
<td>4.5%</td>
</tr>
<tr>
<td>1996 (Jan.-Sept.)</td>
<td>9.1%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

*Source: Ohio Bureau of Employment Services*
<table>
<thead>
<tr>
<th></th>
<th>24 Mo. Unemp.</th>
<th>12 Mo. Unemp.</th>
<th>3 Mo. Unemp.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rate</td>
<td>Rate</td>
<td>Rate</td>
</tr>
<tr>
<td>USA</td>
<td>5.6%</td>
<td>5.6%</td>
<td>5.4%</td>
</tr>
<tr>
<td>City of Lorain</td>
<td>8.7%</td>
<td>9.4%</td>
<td>7.1%</td>
</tr>
</tbody>
</table>

Lorain County's unemployment rate is expected to climb this year, led by the City of Lorain which will see rates in double digits as Ford Motor Company's Lorain Assembly Plant, the largest employer in both Lorain County and the City of Lorain, eliminates between fifteen and eighteen hundred (1500-1800) jobs when they cease production of the Thunderbird and Cougar. These jobs pay over $40,000 per year and will be difficult to replace. Lorain County Chamber of Commerce projects a total of twelve-thousand (12,000) jobs could be lost countywide when you factor in lost contracts by local Ford suppliers, commercial and retail businesses who derive much of their income from Ford workers.

Added to this are the factors of corporate downsizing and business/institutional mergers, both of which are national trends of the 1990s, which have been experienced acutely in Lorain. Most recently, the merger of the two local hospitals, St. Joseph Hospital and Lorain Community Hospital will eventually result in the loss of more than 500 jobs at the St. Joseph's facility. In addition, local manufacturing jobs are lost each
year as major industries such as USS/Kobe Steel and Ford Motor Company introduce increased mechanization and computerization into their production processes.

The 1990 Census shows that the 1989 Per Capita Income in the City of Lorain was $10,676, which was only 74.8% of the United States Average Per Capita Income of $14,277. These relative percentages have remained fairly stable the last seven years, but the Ford announcement will probably see these percentages further decline. The result of generally lower incomes and high unemployment rates locally has been disinvestment in both the residential and business districts in the City of Lorain.

The City of Lorain is the only city in Lorain County listed as "distressed" by the State of Ohio for the Manufacturers Tax Credit Program. It is also designated by the State of Ohio as an "Impacted City" and by HUD as a "distressed city."

Development Of The Economic Adjustment Strategy

The Economic Adjustment Strategy was developed as an outgrowth of the Overall Economic Development Program. The strategy was refined using information gathered through meetings/discussions with local business owners and local agencies including the Lorain Development Corporation and the Lorain County Chamber of Commerce. These same sources will be involved in further refining the Strategy and the Board of the Lorain Development Corporation will oversee its implementation.

Area Resources Targeted For Improvement

Through discussions with the sources identified above we have ascertained that the area is deficient in the following resources: work force skills and diversification of
businesses and industries. One of the most common complaints from area employers is the lack of skilled workers and the poor quality of the local labor market. To address this problem, we have met with representatives of the Lorain County Chamber of Commerce, the Public Services Institute of the local community college as well as the local Employment Training Administration (ETA) to design and coordinate both general labor and employer-specific training programs.

To address the diversification issue, we have shifted the focus of our recruiting efforts away from the automotive and steel industries and instead have focused on technology and research firms and other manufacturers. We offer special incentives to these firms to entice them to expand or locate in the area, including tax incentives, below-market priced land and low-interest rate financing.

**Strategic Adjustment Goals & Objectives**

The Strategic Adjustment Goals of the Revolving Loan Fund Program (RLF) are as follows:

a. To stimulate the strengthening and diversification of Lorain's existing economic base by providing necessary public funding incentives to leverage private financial sources for development and/or retention for small and medium sized and minority businesses.

b. To create additional job opportunities for Lorain through:

   1. retention and expansion of existing business and industry.

   2. diversification of the existing industrial base.
These goals coincide with the community's overall strategies for economic revitalization and those of the OEDP which include:

- To protect Lorain County's existing jobs and allow firms to expand and create new jobs;
- To support the Lorain Central Business District development plans in order to increase tourism and attract commercial activity, and also to enhance and compliment private downtown development;
- To diversify the County's economic base.

Implementation Programs

The City of Lorain has determined that economic development and recovery is a primary goal. Staff of the Community Development Department are responsible for economic development activity. A major thrust of the Department has been to focus on economic development utilizing the resources at the local, state, and federal levels of government.

In the 1980's and 1990's, the City of Lorain implemented an EDA 302A Planning Grant Program to initiate long term economic strategies and objectives. Initiatives begin under this program continue to positively impact our community. Through this program, visitations are being made to local businesses on a continuing basis. These visitations have enabled us to advise businesses of the various government programs available to assist them. Businesses are encouraged to apply for government loans to ensure retention of jobs locally. Through the EDA Planning Grant program, the City made application to the
Ohio Department of Development to achieve State of Ohio Enterprise Zone Designation. The City has been designated as a State Enterprise Zone enabling local businesses to seek relief from increased real estate and personal income tax when improvements are made. Additionally, the City expects to apply to the federal Department of Housing and Urban Development for designation as a Federal Enterprise Community. On the local level, state-designated Community Reinvestment Areas (CRA’s) have been established and approved by City Council. These areas are established in older sections of the community in order to encourage redevelopment activities for housing, commercial, and industrial improvements; many targeted industrial parks and vacated industrial and commercial buildings are within these areas. Tax abatements are granted on real estate improvements, pursuant to State CRA law. Additionally under the Planning Grant Program, policies and procedures were formulated to determine eligibility for tax abatement for redevelopment projects. A marketing effort consisting of informational brochures and advertising of loan programs is ongoing. The marketing program’s success can easily be measured by the demand for the EDA Title IX Loan Program.

Community Development Block Grant (CDBG) Program funds are annually set aside by the City and targeted toward economic development. Since the mid 1980’s, the City’s loan program utilizing CDBG funds has been able to secure new jobs and/or retain more than 800 jobs in the industrial and business sectors. The City initiated the creation of the local Lorain Development Corporation which has overseen the City’s business loan and technical assistance programs for the past twelve years, resulting in
CDBG and EDA Title IX RLF business loans totaling more than $8 million. These loans have spurred job producing developments worth more than $40 million, including major downtown revitalization projects, industrial park developments, and new buildings for companies locating in Lorain.

The EDA Title IX Revolving Loan Fund Program fits in well with the economic development strategies of the City, providing low interest loan money to small and medium sized firms. Through the provision of this money, we have been able to: fill the financing gaps that exist for firms; encourage start-up opportunities which are difficult to finance privately; target industrial revitalization efforts; and encourage expansion to permit companies to achieve our overall goals of job creation, diversification of the community’s economic base, and reduction of the community’s unemployment rate. This program alone has been responsible for the retention of 321 jobs and the creation of 974 jobs.

The government loan programs have been a vital tool in curbing job loss in Lorain. Additional EDA Title IX funds are required to permit the City’s economic goals to be met. Businesses and industries continue to look to our City government for assistance. Current requests for EDA Title IX RLF funding amounts to over $1,000,000; the City presently has no uncommitted Title IX RLF funds available to assist these qualified companies. The Title IX Program is the key to assist companies with low, fixed interest rate, longer term loan funds to fill the financing gap to allow pending economic development projects to proceed to completion.
Maintaining, Evaluating & Updating the Economic Adjustment Strategy

It is anticipated that this adjustment program will be evaluated annually. The Lorain Development Corporation and the City of Lorain’s Community Development Department will maintain the adjustment strategy, evaluate results and recommend appropriate changes/revisions as necessary to the City of Lorain Administration and City Council. The Lorain Development Corporation and the City of Lorain will also manage and coordinate implementation of the key elements of the strategy. The Lorain County Chamber of Commerce will implement and coordinate job training efforts along with Lorain County Community College and the Employment & Training Administration.

B. THE BUSINESS DEVELOPMENT STRATEGY

Objectives Of The Business Development Strategy

It is primarily the intent of our program to target RLF funds towards the following:

* Retention of existing companies (modernization to remain competitive);
* Expansion of existing industries;
* New start-up firms, provided that they comply with the criteria of this text;
* Firms serving as suppliers to major industries;
* Loans involving the reuse, modification and retrofit of existing vacant buildings;
* Industrial Park tenants;
* Minority Entrepreneurship.

Types Of Projects Targeted For Assistance

RLF loans will only be made to companies within the corporate limits of the City of Lorain. Within this area of eligibility, it is difficult to specify "geographically" one
particular target area for funding since the economic downturn has impacted the entire community and industrial uses are scattered throughout the City. Nonetheless, we will focus attention on, but not totally limit funding towards the following areas:

* **Existing Vacant Structures** - examples of these facilities include, the Stove Works Facility (200,000 sq. ft.), TRW (100,000 sq. ft.), Fastway Fasteners (52,200 sq. ft.), Lorain Creamery (22,000 sq. ft.), Nimn Building (16,000 sq. ft.), Pioneer Printing Bldg. (10,000 sq. ft.), and numerous smaller sized structures located in Lorain.

* **Building modifications/retrofits** including building ceiling heights, modernizing electrical systems, and elimination of phase one environmental hazards including asbestos abatement if applicable.

* **Industrial Park Areas** - firms proposing to locate or currently located within existing industrial park areas. Significant growth and development can be anticipated for developing parks with infrastructure in place which includes:

  **Lorain Industrial Park - 30 undeveloped acres**
  **Colorado Industrial Park (Phase I - 25 acres)**
  **Cassell - 65 undeveloped acres,**
  **Shanks - 40 undeveloped acres,**
  **Kyle - 65 undeveloped acres,**
  **Campana - undeveloped land, 25,000 to 35,000 sq. Ft. building**
  **City of Lorain Port Authority Grove Site - 45 acres undeveloped**
Attracting businesses to the area can help realize the objective of diversifying our economic base. Additionally, the City’s economic development incentives will help achieve the goals of business retention and stabilization of employment.

**Types of Assistance Needed**

Through the targeting of EDA Title IX RLF funds, we will be able to meet the goals and objectives described above. Targeting funds towards vacant facilities will permit us to initiate their reuse. Diversification of our economic base and a strengthening of our major industrial attributes will be achieved by targeting funds to specific use types. Guidelines established by the Lorain Development Corporation for RLF project funding is that approximately seventy percent (70%) will be used for industrial projects and the remaining thirty percent (30%) will be used for commercial projects in the City of Lorain.

The funding of "start-ups" will fill a financing void. As described, the funding of "start-ups" through conventional means is extremely difficult or non-existent. Provided that firms meet the program criteria, start-up businesses will also assist in the diversification of the community's economic base.

The City of Lorain, which maintains a minority population of 26%, evidences a proportionate lack of minority businesses. The City is committed to assisting the growth of this sector and would aggressively market the RLF to these potential borrowers.

The funding of expansions is also critical to the community's economy. The RLF will provide low interest moneys to permit economic growth which may not otherwise occur, thereby providing stability to the City's tax base and employment base.
The Community Development and Lorain Development Corporation staff will again participate in site visitation program to assess the needs and potential of local industries and businesses. Information obtained from these visitations will supplement material provided to the loan board to evaluate and update the economic adjustment strategy.

Other Business Assistance Programs Available

The Lorain County Chamber of Commerce through its Lorain County Small Business Development Center (SBDC) has available technical and management services designed to enhance management capabilities, financial and technical resources, and education programs for small businesses. These services include market analysis, bonding, data on educational programs, schools, and governmental programs.

Prospective borrowers will also be apprised of the programs available through SBA (loans and technical assistance); the State of Ohio's Department of Development; the Ohio Technology Transfer organization (OTTO) through the Lorain County Community College; the Service Corps of Retired Executives (SCORE); and the Small Business Innovation Research Program (SBIR), which involves the commercial application of research programs and projects.

As part of the RLF program, we have referral system to provide technical services to potential borrowers. Specific loan package referral services are available through the Department of Community Development. Additionally, the Lorain Development Corporation has an Economic Development Finance Specialist to assist
prospective applicants or borrowers. Staff has worked with local banks in the
preparation of loan applications and when necessary, have assisted applicants in loan
negotiations with banks.

As indicated previously, loan recipients will be encouraged to utilize the
services of the JTPA and the Ohio Bureau of Employment Services Programs.

C. THE FINANCING STRATEGY

Identification Of The Area's Financing Problem

The financing problems of the Lorain area, particularly for the small to medium
sized firms, are the result of the area's overall distressed economy. Plant closings,
relocations, and subsequent layoffs attributed to a significant increase in the number of
home and business foreclosures. It has been estimated that one bank alone encumbered
over $1 million in foreclosures. Since foreclosed loans become non-accrual in nature --
in that no interest income is derived -- significant portions of the lending institution's
assets are frozen. This has resulted in generally conservative lending practices by the
banks, leading to a general reluctance to participate in high risk ventures. The problem is
further accentuated by business loans which have either defaulted or been extended
beyond normally accepted terms.

Current Availability of Public & Private Financing

The local capital market is impacted by: the conservative lending of the banks
towards high risk ventures e.g., start-ups and restaurants; the limited amount of private
and government loan funds; the stringent requirements of SBA; and the limitation on savings and loan institutions to fund projects other than residential.

Interest currently being charged for commercial loans as of May, 1997 ranges from prime plus one point to prime plus three points with prime being 8.5%; thus, the current interest rate being charged is 9.5% to 11.5%. These rates may be fixed only for a one to three year period and become variable after this period. The anticipation of a higher interest rate is cause for fear in start-up, expanding and marginal businesses.

In addition to the interest rates, private lending institutions typically will finance only sixty five to eighty percent (65-80%) of a project. Many small businesses cannot come up with the remaining twenty to thirty-five percent (20-35%) necessary to allow the project to proceed without jeopardizing their ability to remain solvent. Many of these businesses need to retain existing equity in the company to digest the growth associated with expanding. By utilizing the RLF, the business requesting assistance will be required to come up with only a ten percent (10%) equity injection. Having a lower equity requirement makes the expansion more affordable to the borrower and consequently, more attractive.

It is anticipated that the RLF will complement the other public financing programs available for small businesses as well. These other programs are summarized below:

SBA 504 Loan Program
Although targeted to the small business, the SBA programs have limitations. Requirements for these programs have become very stringent. The SBA's 504 Direct Loan Program presently has interest rates similar to those of private lending institutions and charges extraordinarily high fees, thus its appeal has dwindled dramatically. However, this program does have some advantages over other public financing programs. One notable advantage is that use of SBA 504 financing in a project does not provoke prevailing wage rules which typically apply to other public financing programs.

**City of Lorain - Section 108 Program**

The City first received approval from the Department of Housing and Urban Development for a Section 108 Program in 1984. The program permits a city to borrow against future Block Grant Program funds for use in community development activities, primarily for property acquisition or rehabilitation of publicly-owned buildings. Lorain has utilized these funds to promote public/private ventures. A total of $4,693,500 in loans have been awarded to date.

**City of Lorain - Storefront Preservation Loan Fund**

This program, which supports and targets physical improvement and economic development of the Central Business District, provides financing at a 1:1 ratio with a maximum loan of $7,500 per elevation at a 5% interest rate for a maximum of 10 years (3% if architects are utilized). Loan are limited to one per business per year. A total of $306,823.00 in loans have been awarded to date.

**EDA Title IX RLF Program**
The EDA RLF has served to complement the City’s loan programs and to further the City’s ability to make loans to worthwhile business ventures. It has been successful in reducing financing risks to private lending institutions by taking a subordinate position on the loan, thereby serving to leverage private sector financing commitments. The Loan Fund has served to fill the "gap" in existing private and public financing programs by extending loans for the life of an asset for a fixed period of time and rate, and to allow approval to projects which commercial lenders believe are risky in nature.

Since the inception of the Title IX RLF Program in 1985, a total of $3,096,700 in loans have been awarded. The City has maintained an ongoing relationship with private lenders, who are well aware of the requirements and limitations of the RLF Program, and institutions. Lenders often advise the City when they are negotiating with industrial borrowers and a "financing gap" exists in order that the City can assist in the "deal-making" to allow a proposed project to continue to completion.

Presently, the City of Lorain has received loan requests exceeding $1,000,000 which cannot be met due to total depletion of the EDA RLF fund. Recapitalization of the EDA Revolving Loan Fund is imperative to continue Lorain’s aggressive efforts to retain, attract and expand industry and business. The availability of lower and fixed interest rate loans has truly served as an incentive to private entrepreneurs to undertake economic development projects within the community.

The RLF Financing Niche
It is anticipated that the entire RLF recapitalization will be used for direct loans to finance industrial development projects. However, if loans are provided to commercial/retail borrowers, in no case will these loans (loans to commercial borrowers) exceed 30% of the total loan sum available. The RLF will serve the following types of businesses:

Manufacturing firms serving major local industries, firms locating in industrial park areas, firms locating in existing vacant buildings, and firms that are minority and/or women owned.

The terms of each loan made from the RLF will vary depending upon the aspects of each project. The interest rate shall not be less than 4% and the term of each loan shall depend upon the economic life of the asset(s) being financed but shall not exceed 25 years.

It is anticipated that the RLF will serve to compliment, not compete with, existing available sources of public and private financing. Each project will be analyzed to determine the appropriate financing structure and the appropriate level of RLF participation.

The Impact Of The RLF On The Economic Adjustment Objectives

The RLF will assist the City of Lorain achieve its strategic adjustment objectives, which are: To stimulate the strengthening and diversification of Lorain’s existing economic base by providing necessary public funding incentives to leverage private financial sources for development and/or retention for small and medium sized and minority businesses; To create additional job opportunities for Lorain through retention and expansion of existing business and industry and diversification of the existing industrial base.
D. FINANCING POLICIES

Lending Area Restrictions

As previously stated, the RLF will only be used to finance projects located in the City of Lorain.

Borrower Restrictions

Each RLF borrower will be required to retain the activity financed in the RLF lending area (the City of Lorain) for the term of the loan. This requirement is explicit in the loan agreement, which incorporates a call provision in the event of non-compliance. A sample loan agreement is attached to this RLF plan as Attachment IV.

RLF financing may not be used for any project which will result in the relocation of jobs from a labor market area within commuting distance. Each participating business will be required to execute an Employer’s Nonrelocation Certification as part of the application process. Exceptions to this restriction will be as listed in EDA Exhibit 6 “Employer’s Nonrelocation Certification”. The loan agreement incorporates a call provision which shall be invoked if it is determined that (a) the business used the RLF loan to relocate jobs from another labor market area, or (b) the activity financed was subsequently moved to a different labor market area to the detriment of local workers.

An RLF loan will not be awarded without satisfactory documentation that private financing was not available on terms and conditions which would permit completion and/or successful accomplishment of the project activities to be financed. This documentation shall be incorporated within the loan write-up and included in each loan file. This
documentation will include either private bank rejection letter(s) or a commitment letter from a private lender indicating the loan terms, the loan amount approved, and the need for the RLF’s participation. The loan write-up shall include a discussion of the particular features of the local capital market and/or the individual loan applicant or project to be financed that result in the need for RLF financing. It shall also describe the key aspects of the business and of the loan request including a discussion of the applicant’s ability to repay the loan.

In some cases, the RLF may be used as incentive financing, through favorable loan terms, to attract a new business or a business expansion into Lorain. In these cases, certification will be obtained from the borrower that it would not locate the proposed project at the intended location without RLF assistance. This certification, as well as documentation of the need for RLF assistance shall be included in the loan file.

A public or quasi-public organization will not be eligible to receive RLF financial assistance unless (a) the activity financed directly benefits or will directly benefit identifiable business concerns, and (b) there is reasonable assurance that the activity financed will result in increased business activity in the near term.

Private developers will not be eligible for RLF assistance unless the activity financed is non-speculative, consistent with the strategic and lending objectives of the RLF, and directly benefits or will directly benefit identifiable business concerns.

*Financing Restrictions*
The RLF will not be used to finance projects involving investment in interest-bearing accounts, certificates of deposits, or other investments not related to the objectives of the RLF. Further, the RLF will not be used to:

* acquire an equity position in a private business;

* subsidize interest payments on an existing loan;

provide the equity contribution required of borrowers under other Federal loan programs;

* enable an RLF borrower to acquire an interest in a business, either through the purchase of stock or through the acquisition of assets, unless the need for RLF participation is sufficiently justified and the economic benefits derived are consistent with the strategic objectives of the RLF. In such cases, justification will be documented in the loan write and included in the loan file;

* refinance existing debt unless the RLF program income or repayments are used to purchase the rights of a prior lienholder during an in-process foreclosure action in order to preclude a significant loss on an RLF loan. This will be done only in the event that there is a high probability of receiving compensation within an eighteen month period from the sale of the assets sufficient to cover any expenses incurred plus all or most of the outstanding loan obligation.

**Interest Rates**

The minimum interest rate to be charged on loans made from the City's recapitalization grant will be four (4) percentage points below the current prime rate
quoted in the Wall Street Journal, but will not fall below four (4) percent. The maximum interest rate will be ten (10) percent.

**Equity Requirements**

Each project shall contain a contribution by the applicant of at least ten percent (10%) of the total costs. In addition to cash equity, equity in the form of unencumbered real estate, machinery, equipment or other unencumbered assets may be deemed acceptable on a case by case basis by the RLF governing loan board.

**Repayment Terms**

The repayment term of each loan will depend on the economic life of the assets, but will not exceed 25 years. It is anticipated the maximum term for real estate shall be 25 years. For equipment and/or machinery the maximum term shall be 15 years. For working capital, the maximum term shall be 10 years. Generally, the term will be consistent with the term of the participating bank.

**Collateral**

Each loan shall be secured by a mortgage on real estate or a security interest in other fixed assets as deemed appropriate by the RLF loan board. In addition to the assets being financed, the RLF loan board usually requires mortgages on personal assets and always requires personal guarantees.

**Special Financing Techniques**
In some cases, deferment of loan payments, balloon payments and special repayment arrangements have and will be considered. Deferment periods on loans made from the RLF recapitalization grant shall not exceed six (6) months. These creative financing techniques will be considered on a case by case basis when warranted by the aspects of the project (i.e., a start-up company requesting a deferral of principal, etc.).

Loan Size

A loan from the EDA RLF shall not exceed 40% of the total project costs nor shall exceed $300,000 unless a larger amount is determined necessary to allow an important economic development project to occur. Loan amounts exceeding $300,000 must be approved by both the RLF loan board and Lorain City Council. It is estimated that the average loan amount shall be approximately $50,000-$100,000. Due to the administrative costs associated with the RLF, loans of less than $5,000 will not be considered for funding.

E. PORTFOLIO STANDARDS AND TARGETS

Investment Targets For RLF Recapitalization Grant

As stated previously, it is anticipated that at least 70% of the RLF capital will be used for industrial/manufacturing concerns. No more than 30% will be invested in commercial and service firms. Furthermore, it is anticipated that approximately 30% of the EDA RLF base capital will be used to finance startup companies and the remainder will be used to finance business expansions and retention projects.
Types Of Loans

The majority of the RLF portfolio will consist of fixed asset loans. We anticipate that a maximum of 40% of the portfolio will consist of working capital loans.

Private Investment

Each project shall consist of a level of private investment sufficient to warrant assistance. Overall, the RLF portfolio will be leveraged by a minimum $2 private investment for each $1 RLF investment. The current EDA Title IX RLF is leveraged approximately 10:1 by private investment. The typical financing structure for each project shall be 60% bank, 30% RLF and 10% equity.

Cost Per Job

As a basic requirement, each loan must generate new permanent employment. One (1) position must be created or retained for every $15,000 of EDA loan funds borrowed. This ratio is consistent with the State of Ohio's 166 Direct Loan Program criteria. Additionally, 51% of new jobs created must be filled by low and moderate income persons as defined by the U.S. Department of Housing and Urban Development. Employment level projections must be reached within three years of first disbursement of funds and maintained for a period of five years. Overall, it is estimated that approximately 100 new jobs will be created through the recapitalization grant. To date, the present EDA RLF Program has performed well above the minimum requirement and maintains a job/cost ratio of one (1) job per $2,393. If this rate continues, 417 jobs will be created and/or retained with recapitalization funds.
New employment for the purposes of the program is defined as a first-time hires or past employees who have not been employed for at least six (6) months or involves a promotion(s) of lower and moderate income employees. Certification of these employment factors is required.

It is anticipated that 25% of the positions created will be directed towards the long term unemployed. This will result in approximately 25 jobs of the estimated 100 jobs to be created being directed towards the long term unemployed. To date, the present EDA RLF program has created an estimated 321 jobs and has retained 974 jobs. This program has been most successful in creating jobs for long-term unemployed and minorities. The City of Lorain has far surpassed the minimal program requirements.

Since the overall economy of the City has been seriously impacted over the past few years, all sectors of the industrial community will be targeted towards job development and job growth. It is anticipated that most of the jobs created or saved will generally be semi-skilled in nature as evidenced by our past performance.

F. RLF LOAN SELECTION CRITERIA

Projects which meet one or more of the following criteria will receive priority for funding:

Cost per job ratio-Preference will be given to those projects with a low cost per job ratio

Type of business-Preference will be given to businesses involved in industries which will help diversify the area economy.
Project location-Preference will be given to projects which utilize existing vacant buildings, locate in target areas, industrial parks or brownfield areas, and/or locate within areas with high concentration of unemployed and/or low-income persons.

Business Retention-Preference will be given to projects which retain a business and/or industry potentially relocating out of the area.

Necessity of public funding-Financing will be considered only for projects which could not occur without public funding.

G. PERFORMANCE ASSESSMENT PROCESS

As stated previously, the EDA Title IX RLF will be evaluated annually by the Lorain Development Corporation and the City's Community Development Department. The review process will consist mainly of evaluating the EDA Semianual reports and the detailed Job Surveys which the loan recipients will annually be required to submit to the City. A comparison will be made between the benchmarks established in this RLF Plan and actual results obtained as indicated in the semiannual reports and job surveys. In the event that large variations exist, appropriate action will be taken. If it is determined that the overall economic adjustment objectives are not being met, recommendations will be made to modify the RLF Plan.
PART II:

REVOLVING LOAN FUND OPERATIONAL PROCEDURES
A. ORGANIZATIONAL STRUCTURE

Overview Of EDA Title IX Operational Procedures

The Application Process

The attached EDA Title IX Operational Procedures diagram (Attachment I) describes the overall process involved with the loan review. The Lorain Development Corporation's employee and Community Development Staff will:

1. Interview the applicant to determine project eligibility.

2. Review the RLF guidelines and loan application with the applicant.

3. Review RLF program requirements regarding non-substitution of private loan funds with EDA-RLF funds, and compliance with civil rights, employment, and environmental requirements.

4. Review the application, private bank commitment letter, and all required certifications to ensure application meets all RLF requirements.

5. Prepare a written loan summary and recommendation regarding the need for RLF participation. The written analysis shall evidence the necessity and appropriateness of RLF injection into the project as credit is not available from a private lending institution on terms and conditions required for successful completion of the project.

7. Present the loan application package to the Loan Board.

8. Close the loan (obtain signatures on all pertinent loan documents).

9. Ensure proper recordation of documents (e.g. mortgage, security, UCCs).
Once a credit decision is reached by the Board, a recommendation is made to the City's Board of Control regarding the approval or denial of a loan. The Loan Review Board will meet the second Monday of every month and upon special call. Information pertaining to prospective loans will be submitted to the Board the Friday prior to the meeting to allow sufficient time to review the application before the meeting.

Final loan approval rests with the City of Lorain's Board of Control. The Board of Control is comprised of the Mayor, the Service Director and the Safety Director of the City of Lorain. The loan documents are executed by the Service Director, who is empowered by Lorain City Council to execute contracts on behalf of the City. The president of the Lorain Development Corporation and the Director of the City's Community Development Department also execute the loan agreement as recommending signatories.

**Loan Servicing**

Both the City's Community Development staff and the Lorain Development Corporation's employee will be responsible for monitoring and servicing the RLF and the procedures to be followed from loan closing to full repayment. Loan repayments will be monitored monthly by the Department's Accounting Division. Cases of nonpayment or delinquency will be presented to the Board for their review and recommendation. Every attempt will be made to restructure a loan and consider reasons for nonpayment or delinquency (such as nonpayment or late payment by a purchaser). Collection letters and borrower contact will be initiated for up to ninety (90) days. If following the ninety (90) day period, and whereupon a meeting with the loan recipient does not reveal an
acceptable reason for nonpayment, a recommendation will be made to the Loan Board to initiate foreclosure action. Upon notification by the Lorain Development Corporation, the City's legal staff will initiate foreclosure proceedings.

**RLF Portfolio Compliance Reporting**

The Lorain Development Corporation employee will be responsible for preparing and submitting semi-annual and annual reports to EDA.

**The RLF Loan Board**

The Lorain Development Corporation's mission is to initiate and implement economic development activities designed to alleviate conditions of substantial and persistent unemployment and under-employment in the City of Lorain resulting from chronic job loss from primary employers in our area; steel production and automotive manufacturing. The Lorain Development Corporation was formed by the City of Lorain's Community Development Department for the purpose of administering its revolving loan fund programs. The Lorain Development Corporation operates under a subrecipient agreement (contract) with the City of Lorain, which is renewed annually. The current subrecipient agreement, which explicitly sets forth the duties and the responsibilities of the Lorain Development Corporation is incorporated within this RLF Plan as Attachment V.

The Lorain Development Corporation is governed by a nine-member volunteer board of trustees, all locally based, who also serve as the EDA Loan Administrative Board, and the City's RLF (CDBG) Board. This achieves continuity in the processing of loans. The members of the Board include two Certified Public Accountants, two bankers,
two attorneys, one school administrator, and two local business persons. Members of the Board are appointed by the Mayor of the City of Lorain.

The Board meets regularly to provide program oversight, set policy, make personnel decisions and approve loan requests per the established criteria and in compliance with EDA guidelines. A quorum, consisting of a minimum of five persons with at least one person with financing experience must be present to approval/disapprove of a loan request or modification of loan terms or collateral, to establish policy or to pass resolution.

Due to the fairly high percentage of minority population in the City, 26% (12% black, 14% Hispanic), the Board currently consists of three (3) minorities, — two (2) black and one (1) Hispanic. In order to insure continuity in the minority and female representation on the Board, the by-laws of the Lorain Development Corporation were amended to incorporate that membership on the Board shall consist of Hispanic, Black, Female, and/or other minority representation.

B. LOAN PROCESSING PROCEDURES

Loan Application Requirements

See Attachment II for a checklist of required loan application information

Credit Reports

In addition to the items in Attachment II, a credit report will be obtained on each principal of the business as well as their spouses. Verification will be obtained from the Office of the Secretary of State as to whether or not the business is operating in “Good
Standing”. When appropriate, a company’s Dun & Bradstreet rating will also be obtained.

**Appraisal Reports**

An appraisal will be obtained on all fixed assets being financed or being used as additional security for a loan.

**Environmental Reviews**

The City shall not provide loans to applicants who will adversely affect the environment, including air and water quality, flood plains, historic and archeological sites, wetlands, drinking water resources, and non-renewable natural resources. Environmental assessment will be performed by the Planning staff of the Community Development Department prior to the awarding of a loan. The staff shall consult with other appropriate City departments to determine the potential environmental impact a project may have and to determine mitigating solutions (i.e. Engineering Dept. for floodplain and wetlands, Water Pollution Control Dept. for air and water quality, and Fire Prevention Bureau for hazardous materials).

**Standard Collateral Requirements**

Each loan shall be secured by a mortgage on real estate or a security interest in other fixed assets as deemed appropriate by the RLF loan board. In addition to the assets being financed, the RLF loan board usually requires mortgages on personal assets and always requires personal guarantees. Fire, hazard and flood (when warranted) insurance
policies naming the City of Lorain as loss payee will always be required. Title insurance will be required for projects involving financing for real estate.

**Standard Equity Requirements**

Each project shall contain a contribution by the applicant of at least ten percent (10%) of the total costs. In addition to cash equity, equity in the form of unencumbered real estate, machinery, equipment or other unencumbered assets may be deemed acceptable on a case by case basis by the RLF governing loan board.

**The Loan Write-Up**

As stated previously, the loan write-up shall be prepared by the Lorain Development Corporation’s employee and will be provided to the Loan Board a minimum of three days prior to a meeting. The following items/topics will be addressed in each loan write-up:

- A brief history of the business with explanation of the product line or services provided
- Description of the project
- Amount of financing being requested
- Source and amount of other committed financing sources
- Consistency of project with RLF guidelines
- Repayment ability
- Collateral analysis
- Information regarding current employment levels and the number of new jobs projected over a 3-year period

**Documentation of Loan Approval**

Loan Board decisions regarding loan approvals/denials or requests for modification of terms or collateral will be documented in the meeting minutes.
The minutes will clearly specify the terms and conditions for loan approval or reason(s) for loan denial. The loan applicant will be given written notice of the decision of the Loan Board within three days following a meeting. The approval letter will specify terms and conditions of approval, loan terms and collateral requirements. The applicant will have thirty days to provide written notification of acknowledgment and acceptance of the loan terms and conditions. Upon receipt of acknowledgment and acceptance, the loan closing process shall begin.

C. LOAN CLOSING AND DISBURSEMENT PROCESS

General Closing Requirements

Each loan applicant will be required to submit evidence of availability of the equity injection and bank commitment letter prior to loan board review. Evidence of equity injection will usually take the form of a recent bank statement or evidence of cash deposited into an escrow account.

Loan Closing Documentation Requirements

The standard closing documents consist of: Loan Agreement, Promissory Note, Guaranty Agreement, Mortgage(s), Security Agreement, UCCs and a First Source Employment Agreement. Other documents which are used when applicable are Assignments of Rents, Inter-Creditor Agreements, etc. All loan documents must be approved and signed by the City’s legal department staff prior to loan disbursement.

Loan Disbursement Requirements
Loan proceeds will be disbursed upon receipt of invoices for equipment and upon receipt of invoices and following inspection for renovations. For real estate acquisition loans, loan proceeds will be deposited into an escrow account. No loan proceeds will be disbursed until collateral is secured (i.e., mortgages and/or UCCs recorded and proof of title and hazard insurance is obtained).

D. LOAN SERVICING PROCEDURES

Loan Payment & Collection Procedures

Following loan disbursement, the Lorain Development Corporation will provide the Accounting Department a loan amortization schedule and instructions for invoicing the loan processing fee. The Accounting Department will then send out monthly statements to the borrower which indicate the payment amount and due date. When payments are received, the payments are forwarded to the City of Lorain’s Treasurer’s Office along with a deposit sheet within 3 days of receipt. Payments not immediately forwarded to the Treasurer’s Office are locked in a safe until transferred to the Treasurer’s Office.

Loan Monitoring Procedures

Each loan will be monitored on an ongoing basis until the loan is repaid in full.

Loan recipients will be required to submit annual financial statements and job surveys. Site visitations will be made on at least an annual basis. UCC refilings will be done every five years.

Late Payment Follow-up Procedure
Collection letters and borrower contact will be initiated for up to ninety (90) days. A late payment penalty of $20.00 is assessed if the loan payment is not received within 10 days following the payment due date.

**Procedures For Defaulted Loans**

A loan is considered in default if payments are over 90 days in arrears. If, following a ninety (90) day period, and whereupon a meeting with the loan recipient does not reveal an acceptable reason for nonpayment, a recommendation will be made to the Loan Board to initiate foreclosure action. Upon notification of the Lorain Development Corporation, the City’s legal staff will initiate foreclosure proceedings.

**Write-off Procedures**

Once a loan has been forwarded to the City’s legal department, a recommendation will be made to the City’s Board Of Control to write off the loan balance. Upon approval by the Board of Control, notification is given to the Accounting Department to write the loan off. At that point, the Accounting Department will cease sending statements and collection letters until further notice.

**E. ADMINISTRATIVE PROCEDURES**

**Loan Files**
Each loan file shall be divided into five sections: the application and supporting documentation, general correspondence, loan closing documents, job reports and loan monitoring. The loan monitoring section of the file will consist of annual financial statements, insurance renewals, annual site visit reports and copies of collection letters. The loan closing document section of the file contains copies of the closing documents. The original closing documents are kept in a safety deposit box at a local bank.

**Compliance With EDA Reporting Requirements**

When a loan payment is received, it is posted to a loan payments receipts journal. The amount is divided up into principal, interest and late payment, if applicable. Other RLF income, such as interest on the bank account in which idle funds are held, is calculated monthly.

**Monitoring The RLF Portfolio**

The Lorain Development Corporation monitors the RLF Portfolio on an ongoing basis. RLF Portfolio Reports are distributed monthly to the loan board. These reports provide information on delinquencies, loan payoffs, site visitation report summaries and problem loans. When semianual or annual reports are prepared, they are submitted to the loan board for its review.
PART III:

ATTACHMENTS