

## **MON VALLEY ALLIANCE FOUNDATION**

### **MICROLOAN PROGRAM POLICIES AND PROCEDURES**

Micro Loans will be made available to small businesses located in or locating in, the Counties of Washington, Westmoreland, Fayette, and Greene in the Commonwealth of Pennsylvania. The Mon Valley Alliance Foundation (MVAF) will administer this loan program. All Applicants and borrowers will be treated in an equal and fair manner based on the criteria established. Criteria will relate to business creation or retention, job creation or retention, economic impact on the community, economic viability, and financial soundness relating to ability to repay the debt.

#### **A. Eligibility Criteria and General Loan Program Guidelines:**

##### **1) Eligible Borrowers:**

- a) Duly registered Pennsylvania for-profit corporations, not-for-profit corporations, partnerships, and limited liability companies that do or plan to operate in the Regional Enterprise Zone of the Mon Valley Alliance / Mon Valley Alliance Foundation in the Commonwealth of Pennsylvania (hereinafter, "MVAF Service Area") will be eligible for consideration. All applicants must be duly registered with the Pennsylvania Department of State and the Internal Revenue Service with a Tax Identification Number. Borrower's ownership must include substantial U.S. Citizens or legal resident ownership. The project being financed must be located within the MVAF Service Area, but ownership may be located outside of the MVAF Service Area if there is significant benefit to the MVAF Service Area.
- b) All projects are eligible for Microloan funding provided other criteria is met. Other criteria will include but not be limited to successful completion of entrepreneurship program (technical assistance), adequate character, collateral, cosigner and feasibility of business plan.
- c) Loans will be generally targeted to underserved entrepreneurs who are not able to obtain financing through other sources. Funds can be used for retail, service, commercial, manufacturing, or industrial projects. Projects that have job creation, or projects that are capable of creating

wages and income above prevailing averages will be given a preference.

- d) Consistent with relevant federal and state law, including the Equal Opportunity Credit Act and MVAF policy, no applicant or loan will be denied based upon race, religion, ethnicity, age, sex, sexual orientation, national origin, marital status, pregnancy, disability, an applicant's receipt of income from any public assistance agency, or any applicant's exercise of any and all rights defined and provided by the Consumer Credit Protection Act.

## 2) Eligible Loans:

- a) All loan projects will be structured as debt financing to be repaid on a monthly basis. The MVAF Board of Directors will retain the sole discretion to approve, on a case-by-case basis any loan application as a full or partial grant, said portion or entirety of which will have repayment deferred and ultimately waived.
- b) Loans can be used for working capital, purchasing machinery, equipment, and other fixed assets, new construction, alteration, modification, and repair or renovation of existing facilities. Working capital for inventory increases, the supporting of accounts receivable, and for other soft costs of starting a business will be considered on a case-by-case basis.

## 3) Projects Not Eligible for this Revolving Loan Fund

- a) MVAF may not make a loan to itself, a subsidiary, or an affiliate as defined by the MVAF Board of Directors.
- b) Loans will not be made to political bodies or any unit of general or special purpose government.
- c) Loans for land acquisition such as land banking.
- d) Loans to subsidize interest payments or refinancing on existing loans.
- e) Loans that provide the mandatory equity contribution required of borrowers for other Federal loan programs.

- f) Loans that refinance existing debt solely for the purpose of reducing the risk to existing lenders.
- g) Loans that establish revolving lines of credit for borrowers.
- h) Loans for the purpose of investing in high interest investments or accounts not related to the creating or saving of jobs.
- i) Making of a loan to a borrower who has a delinquent debt to any local, state, or federal governmental unit or agency.
- j) Loans to any businesses located outside of the designated area. Any business that receives a loan and then relocates outside of the designated area will have the loan called for full payment.
- k) Projects that are deemed to be ineligible for the program should have a letter sent to them explaining why the project is ineligible and returning all original documents provided by the applicant.
- l) **Any loan application received from a business associate, relative/family member, or any other person/entity which may or will create the appearance of or an actual conflict of interest with any staff of MVAF, member of the Microloan Committee, or any member of the MVAF Board of Directors shall continue to be eligible for the program, provided that said staff, committee, or board member discloses the conflict of interest immediately upon discovery to the Microloan Committee and MVAF Board of Directors, and shall further abstain from any action on the loan application. Any applicant who is aware of any such potential or actual conflict of interest shall disclose the same to the Microloan Committee; failure to do so will result in summary denial of the loan application/revocation of the loan commitment upon discovery of the undisclosed conflict. Should a conflict of interest that existed during the application process and was not disclosed by an applicant who knew or should have known of the conflict of interest be discovered following closing on the loan, said discovery shall be considered an item of material default of the loan.**

4) General Program Guidelines:

- a) All loans will be based on sound repayment ability by the applicant.
- b) Loans in the amount of \$5,000 or less will not require any security interest or collateralization. Loans in excess of \$5,000 will require a security interest or collateralization. The Microloan Committee will have the discretion to recommend to the MVAF Board of Directors that a Microloan in excess of \$5,000, but less than \$10,000, have the security interest requirement waived. The decision to waive the security interest requirement will be solely made by the MVAF Board of Directors only after recommendation by the Microloan Committee. **The maximum loan amount may not exceed \$50,000.**
- c) At the discretion of the Microloan Committee and/or the MVAF Board of Directors, personal guarantees from the principals of the business being assisted, co-signatories, and/or matching funds may be required to secure the loan.
- d) The MVAF Board of Directors will determine the interest rate. Rates will be in accordance with program guidelines with the objective of covering costs and providing a continuing source of loanable funds. The interest rate on all loans will be 1.5% below the Prime Interest Rate existing at the time of the Microloan Committee qualifying a Microloan to an Applicant and offering a loan estimate. Rates shall be guaranteed for 30 days following the offering of a loan estimate.
- e) Terms of the loans will vary according to individual project needs, repayment ability and collateral. In no case will repayment extend beyond 7years on an amortizing basis.
- f) Principal and interest may be deferred for up to the first three months at the discretion of the Microloan Committee.
- g) The MVAF may require a loan origination fee based on the amount of the loan with a minimum of \$185.00 per loan. All recording fees for the loan will be paid from these fees.
- h) All Microloan applications seeking funding in excess of \$10,000 will require a non-refundable application deposit fee of \$300 payable at the time of application. The MVAF may also require that a commitment fee be paid at the time the borrower returns the commitment letter. The commitment fee

and application fee will be applied against the origination fee at closing. If the loan does not close the MVAF will retain the application and commitment fees to cover costs incurred in processing the request.

- i) Other fees that can be included in the loan amount include but are not limited to, cost of completing an entrepreneurial program, application preparation fees, attorney's fees, appraisals, etc.
- j) All secured loans may be subject to the borrower obtaining title insurance for any real property securing the Microloan.
- k) MVAF reserves the right to require that any loan approved not be subordinate to any other loan, mortgage, or other encumbrance. The right shall only be waived upon recommendation of a majority of the Microloan Committee and approval of a majority of the MVAF Board of Directors.

B. Loan Processing, Review, and Approval

- 1) The MVAF will market the program and provide technical assistance to the applicants as requested.
- 2) The Microloan Committee shall consist of a minimum four members to be solicited by the Chief Executive Officer and the Chairman of the MVAF. At a minimum, one committee member shall have commercial lending or small business ownership experience. At each meeting of the Microloan Committee a majority will constitute a quorum. Meetings, discussions, and votes may take place in any manner contemplated by the By-Laws of the MVAF, including via electronic means.. All actions and recommendations of the Microloan Committee will be presented at MVAF Board meetings and are subject to the approval of the MVAF Board of Directors. The members of the Microloan Committee will maintain a resume on file with MVAF that will be considered an attachment to these Rules and Regulations.
- 3) Loan selection and approval will be processed through the following procedures: Potential applicants will be assessed to determine if their project can qualify for loan eligibility under these guidelines. If eligible, the applicant will be asked to complete and submit a Microloan application. Projects will be evaluated for repayment ability, collateral coverage, management expertise, market potential, and other similar factors. The written evaluation will be presented to the Microloan Committee for consideration with staff's recommendation. The Microloan Committee will consider the recommendation in making their recommendation to the MVAF Board of Directors on approval or non-approval. Final approval of a Microloan

application shall be upon recommendation of a majority of the Microloan Committee and final approval of a majority of the MVAF Board of Directors. Approval may not occur in any other circumstance.<sup>4</sup>

- 4) When a project is approved, MVAF staff will generate a commitment letter and loan estimate to be forwarded to the applicant with the terms and conditions under which the loan will be made. The applicant is required to sign and return the commitment letter and loan estimate within a period of time agreeing to the terms and conditions. Once the commitment letter and loan estimate are signed and returned a closing should be scheduled within 30 days.
- 5) When a project is not approved, a member of MVAF staff or the Microloan Committee will meet with the applicant to explain why the project was not approved, and to see if the areas for the non approval can be changed so the project can be reconsidered for approval.
- 6) Non approved applicants will have original documents returned to them. Copies of the documents will be put with the application and the rejection letter and be maintained by the MVAF for a period of seven years.

C. Loan Closings

- 1) The MVAF will retain legal counsel to develop a set of standard closing documents to be used for all Microloans as discussed in these Rules and Regulations. Staff or legal counsel will be responsible for preparing all closing documents necessary to comply with these Rules and Regulations, all applicable laws, and to protect the MVAF's interest in the project.
- 2) As a minimum closing documents shall include, but not be limited to, the following: A note with terms stated; Security Agreements and Mortgages necessary to record the MVAF's interest (if required); Guarantees of the Note and Security Documents; a debit authorization for payment; and Certifications and Assurances. The MVAF will require that the borrower obtain all applicable insurances.

D. Loan Servicing and Default Policies

- 1) At closing the borrower will be provided an amortization schedule showing how the monthly debited payment amount will be applied as to the principal and interest paid. The note will specify where and how payments are to be made, and the payment date which will always be the first of the month.
- 2) The loan agreement will require that all businesses receiving loans submit annual tax returns. For any loans in excess of \$5,000 and/or secured by

property, the borrower will also be required to submit annually the number of employees currently on payroll and their status, i.e. full or part time or seasonal.

- 3) A loan payment is delinquent if the payment has not been made by the 10<sup>th</sup> of the month. A notice will be forwarded to the borrower indicating that the payment now has an additional late fee of either \$25.00 or 1.5% of the monthly payment of principal and interest, whichever is greater. At 30 days a second notice will be sent or personal contact will be made concerning the delinquency. Anytime after 30 days the loan may be declared in default. All statues, rules, and regulations concerning mortgage foreclosure in the Commonwealth of Pennsylvania shall apply.
- 4) If any of the following events occur, whether voluntarily or involuntarily, at the discretion of MVAF the entire unpaid principal of the loan and accrued interest shall become accelerated and become due and payable:
  - a) Non-payment of any installment due on the loan.
  - b) Non-payment in a timely manner of any other indebtedness.
  - c) Incorrect representation or warranty.
  - d) Default in any covenants of the loan agreement.
  - e) Voluntary insolvency.
  - f) Involuntary insolvency.
  - g) Failure to maintain a business operation in the MVAF Service Area.
  - h) Failure to meet the job creation criteria as specified in these Rules and Regulations.
  - i) Violation of the conflict-of-interest policy.
- 5) The MVAF staff will work closely with the borrower for as long as possible trying to remedy the situation before legal action is initiated. After 90 days, if the loan is still delinquent in payment, it will be considered in default.
- 6) **All loans shall authorize MVAF to confess judgment upon any defaulting borrower, as the same is provided for, permitted, and regulated by Pennsylvania law.**

E. Accounting, Interest and Audits

- 1) With respect to accounting, interest, reporting and audits, the MVAF shall comply with all such provisions identified in the funding source documents.
- 2) Any program income, in excess of expenses incurred for the operation of the Microloan Program, will be used to increase the capitalization of the pool of funds.

3) Funds repaid to the MVAF and available for relending will if feasible be held in interest earning accounts while awaiting relending.

4) Administrative expenses will be paid from program income as it allows.

F. Staffing and Responsibilities

The Chief Executive Officer of MVAF will oversee the conduct of all staff/contractor activities such as marketing, loan screening, loan review, loan packaging including recommendations, loan servicing, and small business technical assistance. The MVAF will have responsibility for funds disbursement, reports, and accounting for the portfolio. The Microloan Committee will make recommendations concerning the applications to the MVAF Board of Directors, which will ultimately decide all applications.