

**INVEST AURORA'S
JOHN C. DUNHAM REVOLVING LOAN FUND
(IA-RLF)**



Loan Policy Manual

Implemented December 7, 2016

Revised April 6, 2020

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I. General Provisions

GOALS OF INVEST AURORA'S JOHN C. DUNHAM REVOLVING LOAN FUND (IA-RLF)

The objectives of Invest Aurora's John C. Dunham Revolving Loan Fund (IA-RLF) are:

1. To expand or modernize existing locally owned and managed enterprises.
2. To encourage the creation or retention of employment opportunities for residents in the region.
3. To leverage new private investment in downtown business districts in the City of Aurora.
4. To implement City of Aurora downtown revitalization goals and objectives.

Invest Aurora attempts to maintain a balanced and diverse loan portfolio representing different sizes and types of businesses and managed risk. Funding objectives are intended as overarching guidelines, and final funding recommendations are at the discretion of the Loan Review Committee.

PROGRAM INCOME

Use of all proceeds and other program income from IA-RLF loans shall be restricted to:

1. Additional loans that meet the objectives of the IA-RLF, and,
2. Administrative costs as permitted by federal, state, and local program guidelines.

AMENDMENTS TO IA-RLF LOAN POLICY MANUAL

The IA-RLF Loan Committee may, from time to time, amend the policies that govern the IA-RLF program.

II. Eligibility

The basic eligibility requirements for a IA-RLF loan are as follows:

ELIGIBLE BORROWERS

Each Borrower must:

- A. Be a for-profit business
- B. Be duly organized, validly existing, in good standing and, when applicable, licensed to do business under the laws of the state of Illinois;
- C. Meet any citizenship or legal resident status requirements;
- D. Possess the licenses, certifications, zoning approvals and permits necessary to operate the proposed business at the time the loan is approved;
- E. Be current, and ensure that all loan guarantors are current, on business and personal income taxes, real and personal property taxes, payroll and business taxes, and court ordered judgements;
- F. Provide disclosure of any outstanding litigation involving the business, the business owner(s) and any guarantor(s);

ELIGIBLE PROJECTS

Each Project must:

- A. Reflect the City's articulated goals and priorities for economic development in downtown business districts in the City of Aurora as set forth in the 2017 Master Plan for Downtown Aurora;
- B. Be consistent with the goals of the current Comprehensive Plan of the City and receive all necessary municipal approvals or authorizations;
- C. Demonstrate that the project will not go forward without the IA-RLF funding as demonstrated by a gap in needed financing or a gap in the rate of return;
- D. Be financially viable and demonstrate the economic ability to repay the loan;
- E. Not provide more than a reasonable rate of return on the investment to the owner(s) of the assisted activity;
- F. Provide evidence that all project costs are reasonable;
- G. Be completed within 24 months of the loan commitment date, defined as the date the Loan Agreement is signed;
- H. Not begin until an environmental review is complete, the Loan Agreement has been executed and signed, and a notice to proceed has been issued.

INELIGIBLE PROJECTS

The following projects are ineligible for a IA-RLF loan:

- A. Activities not described as eligible projects are generally ineligible;
- B. Acquisition of land for which a specific use has not been identified (i.e. land banking);
- C. Political activities

III. Loan Terms and Conditions

Loan terms are designed to be somewhat flexible and the IA-RLF will balance the need to maintain the financial viability of the business against ensuring a reasonable rate of return.

USE OF FUNDS

IA-RLF loan funds may be used for:

- Acquisition, development, or improvement of real property;

- Clearance, demolition, removal, and site preparation related to acquisition or rehabilitation;
 - Fixed assets;
 - Machinery and equipment *;
- * (Machinery and equipment must be considered to be part of the rehabilitation project).

LOAN SIZE

The minimum loan size is \$25,000. The maximum is based on availability of funds.

LOAN TERMS

The loan term will not exceed 36 months. Loan amortization, if applicable, will not exceed the useful life of the assets financed. The following are generally accepted loan amortization standards:

Asset	Maximum Amortization
Real Estate	25 years
Machinery & Equipment	10 years

INTEREST RATE

The interest rate is within four (4) points of the Prime Rate, as published in the Wall Street Journal on the business day most closely following the verified receipt of a completed application. Lower interest rates may be negotiated based on the need as determined by the IA-RLF Loan Committee.

LOAN FEES

IA-RLF Loan Committee may establish loan origination fees, closing fees, servicing fees and other fees to cover reasonable charges directly related to either processing an application, or servicing a loan. All fees collected will be retained by the IA-RLF.

The IA-RLF Loan Committee has established a loan origination fee of 1% of the total loan amount. The loan origination fee is due, by certified check payable to IA-RLF, at the time of the loan closing.

LOAN PRE-PAYMENT

Loans may be repaid at any time without penalty.

COLLATERAL/SECURITY

All IA-RLF loans will be secured through one or more of the following means;

- Promissory note;
- A mortgage on the real property being acquired/rehabilitated in an amount at least twice that of amount of the loan;
- A General Business Security Agreement secured by a UCC filing with the Illinois Secretary of State covering assets of the business including equipment, inventory, and supplies.

- Personal guarantees of 1) each proprietor, and/or 2) each limited partner who owns 20% or more interest and each general partner, and/or 3) each stockholder owning 20% or more voting stock;
- Collateral assignment of life insurance in an amount at least equal to the amount of the loan for each of the borrowers/guarantors.
- Collateral assignment of key-person life insurance in an amount at least equal to the declining loan balance for each of the owners/guarantors.
- Other security documents that the IA-RLF Loan Committee may require in its sole discretion to evidence the loan and otherwise protect its security interest and liens.

INSURANCE

At all times during the term of the loan, Borrowers must maintain property/casualty insurance on all business assets and collateral in an amount at least equal to the Borrower's outstanding loans, and name IA-RLF as a lender loss payee/additionally insured for any and all items purchased with the loan.

DISBURSEMENT OF FUNDS

No disbursement will be made without written evidence of approved expenditures and lien waivers if applicable. Evidence may include paid invoices/cancelled checks and/or unpaid invoices reflecting imminent purchases to be made with loan funds. Funds disbursement for unpaid invoices will require the approval of the Director of the IA-RLF to ensure matching funds are correctly being applied as required by the terms of the Loan Agreement.

REPORTING REQUIREMENTS

Some of the information the Borrower will be required to provide is listed below:

- Documentation that all permits, licenses, and any other required registrations are maintained. Typically requested annually.
- Documentation that all required insurance is maintained on all covered property and chattel. Typically requested annually.
- Annual financial statements for the business and guarantors. IA-RLF staff may request that the Borrower provide financial statements more frequently and may also request additional financial information.
- Other items deemed necessary by IA-RLF to determine the continuing financial solvency of the business and compliance with all terms of the Loan Agreement.

The IA-RLF committee, or subcontractor acting on its behalf, will conduct an on-site visit(s) to determine the existence and condition of loan collateral.

COMPLIANCE WITH COUNTY ORDINANCES AND STATE STATUTES

Projects must comply with all applicable Federal and State Statutes and County and City Ordinances.

IV. Loan Application and Initial Screening

APPLYING FOR A LOAN

Loan applications may be submitted at any time. Applications are available on the Invest Aurora web site at www.investaurora.org or may be obtained by contacting Invest Aurora staff at (630) 256-3160.

Applications meeting the minimum application requirements will be processed in the order they are received.

LOAN APPLICATION MINIMUM REQUIREMENTS

The application requirements will differ depending on the type of project proposed. Real estate projects, for example, will require evidence of site control and an appraisal in addition to the items listed below. The following items represent the minimum documentation that must be submitted before a loan application will be accepted.

- Completed and signed loan application;
- Business plan including a market analysis and a hiring plan;
- Map of the business location;
- Resumes of the applicant's owners and key management staff;
- Applicant's financial statements, and if available, CPA prepared balance sheets and income statements for the most recent three years with 3-year projections with one (1) year month-to-month projections and detail supporting the assumptions used to support the projections. Also interim statements not less than 45 days old and federal tax returns covering the most recent 3-year period for the applicant business, for owners of 20% or more of the applicant, and for all proposed guarantors.;
- Personal financial statements of owners of 20% or more of the applicant;

The Loan Application packet contains a complete checklist that will serve as a guide to the submission requirements.

INITIAL SCREENING OF THE LOAN APPLICATION

The initial screening criteria are considered to be thresholds that must be met or exceeded before an application will be forwarded to underwriting and an environmental review. Loan applications will be screened by the IA-RLF staff to determine that the following criteria are met:

- Loan application is complete and signed;
- All required supporting documentation has been provided;
- Business or project to be assisted is located in one of the downtown business districts in the City of Aurora

- Project reflects the City of Aurora’s articulated goals and priorities for economic development;
- Project is an eligible use of IA-RLF funds;
- The project is consistent with the Comprehensive Plan of the City of Aurora and the Master Plan for Downtown Aurora;
- The commitment to jobs to be created is consistent with the required public benefit standard;
- Sufficient funds are available in the IA-RLF to meet the request.

APPLICATIONS DEEMED INCOMPLETE

If IA-RLF staff determines that a submitted application is incomplete, staff will provide the applicant with a written checklist describing the omissions and ask the applicant to provide the missing information and/or documentation

APPLICATIONS THAT PASS THE INITIAL SCREENING

Once the IA-RLF staff determines that an application is complete, staff will screen the application to determine whether it meets the threshold eligibility requirements described in this manual. Applications that pass the initial screening will be referred for an environmental review as needed, and underwriting.

If the project will involve construction, rehabilitation, or demolition of real property, an in-person meeting will be scheduled with the loan applicant and IA-RLF staff.

V. Underwriting

OBJECTIVES

These underwriting guidelines are designed to provide a framework for selecting projects that are financially viable and will make the most effective use of available funds. The objectives of the underwriting guidelines are to ensure that:

1. Project costs are reasonable;
2. All sources of project financing are committed;
3. The project is financially feasible;
4. The return to the owner’s equity investment will not be unreasonably high; and

The underwriter will conduct background checks on the applicant business, the principals, and the proposed guarantors.

The underwriter will examine the financial feasibility of the project by applying various industry standards, ratios, and statistical analysis appropriate in the examination of the financial information provided by the applicant.

ON-SITE VISIT

The underwriter and IA-RLF staff will conduct an on-site visit of the project. The on-site visit is a vital step in understanding the business and to better inform the underwriting process. The underwriter may ask for additional specific information during the course of the on-site visit.

BACKGROUND CHECKS

Background checks are conducted on businesses, owners, principals, and guarantors to determine the strength of the business and the capacity of principals and guarantors to manage the business, provide collateral, and to achieve projects. As part of this examination, the following resources, among others, will be used:

- Kane County Register of Deeds – to determine mortgages and liens recorded against any property that is being used for collateral.
- Westlaw – to check on out-of-state criminal or civil filings and any additional financial history that may be relevant to the solvency and integrity of the applicant, principals or guarantors.
- Illinois Circuit Court Access Program – to check on outstanding litigation that may impact the ability to operate the business or to maintain assets.
- Illinois Department of Safety and Professional Services and related agencies – to verify that needed licenses and certifications are obtained and are current.
- Kane County Treasurer – to determine the payment history and status of real and personal property taxes involving the business, the applicant, business owners, guarantors and operators.
- Office of the Illinois Secretary of State – to determine the location of the business, identify the property owners, and to obtain information on whether property taxes are current.

UNDERWRITING CRITERIA

The main criteria for underwriting IA-RLF loans are:

Ability to Repay: Usually expressed in a simple calculation of the debt service coverage ratio (DSCR). The DSCR is equal to Cash Flow Available for Debt Service divided by Debt Service. The minimum preferred DSCR is 1.15. For real estate deals, the DSCR is expressed as Net Operating Income divided by Debt Service. In real estate projects involving business tenants, the feasibility of the project and the ability of the project to generate sufficient income are also considered.

Collateral: Provides security to IA-RLF in the event of loan default and the subsequent liquidation of assets pursuant to the terms of the Security Agreement between IA-RLF and the Borrower. The value of collateral securing the loan is measured by the loan to value ratio (LTV). The LTV ratio equals the loan divided by the lessor of 1) Cost or 2) market value. LTV ratios vary as to the nature of the assets being financed. An appraisal is used to determine market value in real estate deals. The following are generally accepted LTV standards:

Asset	Maximum LTV
Real Estate	80%
Machinery & Equipment	75%

Balance Sheet Analysis: An examination of the financial soundness of the business by calculating the ability to collect receivables and pay bills in a timely fashion, manage inventory, generate sufficient cash flow relative to cash needs, and whether the owner is paid a reasonable salary or charges reasonable fees, according to usually customary business practices and accounting standards.

Management Expertise: The management team needs to have industry experience in all aspects of the business (sales and marketing, finance, operations, personnel, etc.). The management team normally shall include the principals, directors, senior management and consultants.

Development Team Experience: The development team in a real estate project normally shall include the developer, architect, contractor, property manager, syndicator, leasing agents, etc. In small projects, the owner may perform all of these roles. The business reputation and credit history of the project developer are a focus of analysis.

Business Plan: The strength of the business plan and the first year monthly cash flow statements are important. A startup or small business applicant needs to demonstrate an understanding of the market in order to create a market niche or offer a unique product or service to differentiate itself. For existing businesses, the applicant is in an industry experiencing stable trends and/or the applicant has a favorable competitive position and there is demonstrated demand for the applicant's product or service.

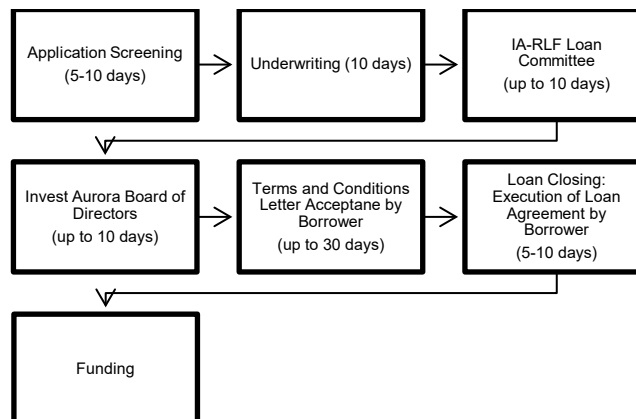
Borrower and Community Commitment: The commitment to the project shown by both the applicant and the community in which the project is, or will be, located.

Job Creation: The ability of the project to meet or exceed HUD's public benefit standards requiring the creation and/or retention of permanent full-time equivalent jobs 51% of which must be held or made available to, low-and-moderate income residents.

VI. Loan Review Process

OVERALL PROCESS AND TIMELINE

The overall process and timeline is depicted below. The Loan Agreement is not valid until positive action is taken by the appropriate oversight bodies, it is signed by all parties, and all conditions of closing are met.



IA-RLF LOAN COMMITTEE

When the underwriting of the loan application is complete, the loan application and the underwriter's report will be reviewed by the IA-RLF Loan Committee. The IA-RLF Loan Committee is comprised of at least one member from each participating IA-RLF bank and have interest and expertise in housing, economic development, and community services. The IA-RLF Loan Committee usually meets the first (1st) Tuesday of each month.

Prior to the meeting of the IA-RLF Loan Committee, each member of the committee will receive a copy of the loan application, supporting materials, and the underwriting report. Information of a personal nature, such as bank and investment account numbers, social security numbers, etc. will be redacted from the materials before they are provided to the committee. Upon review and consideration of the application, supporting materials and underwriter's report, the IA-RLF Loan Committee will vote on the recommendation it will make to the Invest Aurora Board of Directors. The IA-RLF Loan Committee may recommend:

- Approve the loan application as presented; or
- Approve the loan application with additional items or conditions on the loan; or
- Table the loan application until the applicant submits additional information; or
- Deny the loan application.

INVEST AURORA BOARD OF DIRECTORS

The Invest Aurora Board of Directors usually meets the second (2nd) Tuesday of each month. After consideration of the IA-RLF Loan Committee's recommendation, the Invest Aurora Board of Directors will vote. The Invest Aurora Board of Directors may choose to:

- Approve the loan application as presented; or
- Approve the loan application with additional items or conditions on the loan; or
- Table the loan application until the applicant submits additional information; or
- Deny the loan application.

TERMS AND CONDITIONS LETTER

If the loan application is approved, IA-RLF staff will draft a Terms and Conditions Letter stating the loan terms and conditions as dictated by the approval. The Borrower will have 30 days from the date of the Terms and Conditions Letter to sign the Letter and return it to:

Invest Aurora IA-RLF Administration
43 W. Galena Blvd.
Aurora, IL 60506

We encourage the use of certified/registered USPS mailing.

A sample Terms and Conditions Agreement is included in the Appendix to this Manual

VII. Loan Execution

LOAN AGREEMENT

If the Borrower accepts the Terms and Conditions, by signing and returning, in a timely manner, the Terms and Conditions Letter, IA-RLF staff will draft the Loan Agreement, Promissory Note, Security Agreement, Guaranty(ies) and all other required Loan Documents.

A sample Loan Agreement, Promissory Note, Security Agreement, Guaranty and other related Loan Documents are included in the Appendix to this Manual.

VIII. Disbursement and Collection of Loan Funds

DISBURSEMENT OF FUNDS

No loan funds will be disbursed until the borrower has executed all required Loan Documents and the Loan Agreement has been signed by all parties.

Disbursement of funds shall be suspended in the case of any technical and/or material default by Borrower as defined by the terms of the Loan Agreement. The events of default under the terms of the Loan Agreement will include, at a minimum: failure to make timely payment of interest and principle; failure to provide timely, complete and accurate records; and failure to meet LMI hiring/retention requirements. The determination that an event of default has occurred and the suspension and resumption of disbursements will be within the sole discretion of the Director of the IA-RLF in consultation with the IA-RLF Loan Committee.

Prior to the disbursement of loan funds, the following documentation must be in place, or provided at the contractually agreed upon time during the term of the loan:

1. Loan Agreement. The Loan Agreement which shall be executed by all parties.
2. Promissory Note. A promissory note shall be signed by the Borrower. The note must be dated, reference the Loan Agreement between IA-RLF and the applicant, and it must specify the amount and terms of the loan.
3. Security. Mortgage or lien instruments and personal guarantees provided as security for all loans shall be executed at the time of the loan closing. The IA-RLF staff or designee shall record the instrument and place a copy in the project file to include sufficient number of the following documents to provide adequate loan security:
 - Mortgage and/or security instrument.
 - UCC searches and filing.
 - Corporate and Personal Guarantee(s)
 - Title insurance or Abstract.
 - Assignment of Life Insurance.
 - Casualty Insurance binder.
 - Other documentation as may be appropriate.
4. Repayment Schedule. The IA-RLF staff shall prepare a loan repayment or amortization schedule after the loan proceeds are fully disbursed providing for monthly payments of principal and accrued interest during the life of the loan. The repayment schedule shall be dated and signed by all parties. At that time, the repayment schedule shall be attached to both parties' copies of the agreement.

5. Evidence of Permits, etc. Documentation must be provided by the applicant that all necessary permits, licenses, and any other registrations required have been obtained by the applicant within 30 days of execution of the Loan Agreement.
6. Evidence of Program Expenditures. Documentation must be provided by the applicant to evidence project expenditures either prior to or within 15 days of the release of funds. Documentation shall include the originals of bills and invoices or receipts for materials, final bills of sale or canceled checks. The IA-RLF staff shall review all documentation, and may request additional information as needed.
7. Fixed Equipment. Fixed equipment financed with program funds must have been purchased, delivered, and installed within 30 days of the release of funds. The IA-RLF staff shall verify the installation of fixed equipment in an on-site visit. Written documentation and photographs of the installed equipment, sufficient to ensure identification and verification, shall be appended to the file.

Upon submission of a request for reimbursement and pertinent documentation, the IA-RLF staff shall monitor and verify the use of the funds and expenditure. If verified, and upon the approval of the Director of the IA-RLF, the staff will prepare payment reimbursement within ten days of receiving the request.

All disbursements are made by check from IA-RLF to the borrower and mailed to the borrower address given under terms of the Loan Agreement.

COLLECTION OF FUNDS

Loan repayment of principle and accrued interest shall occur on a monthly basis according to the amortization schedule prepared by the IA-RLF staff.

At Closing, Borrower shall provide the bank information and all authorization(s) necessary to allow IA-RLF to withdraw funds in an ACH debit transaction from the borrowers' financial institution. This bank information shall be in writing and shall include the ABA Number of the subject bank, the complete mailing address of the bank, the subject account number from which the funds will be drawn, and the type of account (Checking or Savings).

The ACH withdrawal will take place on the 15th of each month. If the 15th falls on a Saturday or Sunday, the draw will occur on the following Monday. If the 15th is a holiday, the draw will occur on the next business day.

Should the Borrower change financial institutions, the Borrower shall provide its new banking information to the IA-RLF staff within 3-business days. All changes must be in writing on the Borrower's letterhead.

It is the Borrower's responsibility to have sufficient funds in the account prior to the draw date. No draw date will be altered except as described above. If the draw is returned for insufficient funds or any other reason, the technical default provisions will commence.

X. Modification and Default

LOAN MODIFICATION

The terms of a fully executed Loan Agreement will not be modified in any respect, except upon the written agreement of all parties thereto. Modification of loan terms is within the authority of the IA-RLF Loan Committee.

Borrowers seeking any modification of the Loan Agreement must provide re-application information as directed by IA-RLF staff at least fifteen (15) days prior to the date on which the modification request is scheduled to be heard by the IA-RLF Loan Committee. Incomplete re-applications will not be placed on an agenda.

Borrowers requesting modification will be charged the full cost of underwriting, special meeting fees, and all other expenditures, which the IA-RLF, at its sole discretion, determines to be attributable to the modification request. This special meeting fee shall not exceed \$500.00 and is due and payable in certified funds five (5) days prior to the meeting date at which the modification request is on the IA-RLF Loan Committee agenda. Failure to pay the full costs, and/or to pay timely, will result in deleting the item from the agenda and/or meeting cancellation.

MONETARY DEFAULT

When any IA-RLF loan payment is 30 days or more past due, the loan is in default. IA-RLF staff or designee will notify the Borrower in writing of the default status. The IA-RLF reserves the right to pursue all rights and remedies under the loan documents and applicable federal and state law to collect loan amounts outstanding. These options include, but are not limited to: securing a new loan payment plan approved by the borrower and IA-RLF Loan Committee; turning collection of the loan over to a collection agency; imposing late payment penalties and higher loan repayment interest rates, in addition to and not in lieu of any other remedy; and declaring the loan in default.

Should the loan be declared in default, the account will be turned over for legal action in order to recover the proceeds through whatever collections action the IA-RLF deems appropriate including, but not limited to, the liquidation of collateral and the exercising of personal guarantees.

NOTICE OF DEFAULT

In the event the Borrower is in default as defined by the Loan Agreement the Dane County Corporation Counsel, or designee, shall prepare a written Notice of Default and mail such Notice to the Borrower. The Notice shall specify the following:

- The event and date of the alleged default.
- The action required to cure the default.
- A date, not less than ten (10) days from the date of the Notice of Default for monetary default and thirty (30) days from the Date of Default for non-monetary default, by which the default must be cured to avoid foreclosure or other collection action.
- Any penalties incurred as a result of the default.

LATE PAYMENT PENALTY

A late payment penalty in the amount of \$200 for any portion of the monthly payment that is more than 15 days past due from the regular due date specified in the Loan Agreement shall be assessed and payable on the 16th day after the applicable monthly due date. The same process used to collect the monthly payment will be used to collect any late penalties.