

FREDERICKSBURG ECONOMIC DEVELOPMENT AUTHORITY



CREDIT POLICY PROGRAM AND MANUAL

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FREDERICKSBURG
ECONOMIC
DEVELOPMENT
AUTHORITY

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1. Introduction

The Credit Policy Manual (CPM) is designed to provide guidance on Fredericksburg Economic Development Authority's (EDA) lending philosophies to EDA members and personnel, as well as to establish policies and procedures for the EDA's loan program, otherwise known as *InvestFXBG*. EDA policies and procedures as set forth in this CPM reflect the general requirements related to eligibility, loan approval, closing and servicing of the EDA's financing and incentives program. EDA lending policies and procedures will meet Federal fair lending requirements.

The CPM is intended to provide a framework to ensure that lending decisions comply with regulatory and legal requirements, and that sound credit decisions are made. In keeping with the EDA's economic development mission, it is imperative that each business loan be evaluated on its individual merits so that eligible small businesses that meet the objectives of the Loan Program and demonstrate repayment ability are provided access to the program.

2. Program Overview

This CPM applies to the policies and application procedures of the EDA's financing (loan) programs, known as InvestFXBG. This CPM applies directly to the InvestFXBG lending program. Other EDA programs have their own policies and procedures.

2.1 Fair Lending Policy

In keeping with its economic development mission, Fredericksburg EDA is committed to the principles of fair or equal opportunity lending. A consistent and high level of assistance and service will be provided to all small businesses or business owners regardless of race, national origin, religion, sex, age, marital status, disability, receipt of public assistance or other factors. Underwriting standards will be applied fairly and consistently, permitting access to credit for a broad range of business customers. Applicants with equivalent credit qualifications will receive the same consideration.

Applicants will be informed of Fredericksburg EDA's fair lending policy through marketing materials and the application agreement executed by the applicant at the time of loan application.

2.2 Mission of InvestFXBG

Provide capital for business, community, and economic development purposes with the goal of creating jobs, encouraging private investment, and recirculating community capital through prudent lending practices within the City of Fredericksburg (ZIP Code 22401).

2.3 Program Goals

The EDA lending program has five primary economic development goals. Applicants must meet at least one of these goals in order to be eligible for the program. These include:

1. Assist in providing capital for the attraction, retention, and expansion of new and existing businesses that may or may not have access to conventional financing;
2. Support business and community investments that create jobs, with a special emphasis on jobs that provide life-sustaining wages;
3. Provide capital that increases business ownership and encourages entrepreneurship, especially among historically under-represented communities like women- and minority-owned businesses;

4. Stimulate the redevelopment of underutilized and/or deteriorated commercial and industrial properties; and/or
5. Seek out investment opportunities in which EDA capital leverages additional private capital investment.

Loan funds must be used for the economic development project (financing project) as defined and approved in the loan application. In general, loan funds may be used for property acquisition, operating capital, and leveraging other private investments.

3. General Policies

General program policies include the following:

3.1 Eligibility

Each small business applicant must meet the basic eligibility criteria for InvestFXBG:

1. The applicant business must be either a for-profit or nonprofit operating company located and operating in the City of Fredericksburg (ZIP Code 22401).
2. The applicant business must be engaged in a legitimate business or nonprofit enterprise. The applicant must be registered and have all necessary permits in place before a loan may be approved and closed. Applicants may not be engaged in the following:
 - a. Sale of a product(s) or service(s) of a prurient sexual nature;
 - b. Businesses involved in passive or speculative real estate ventures (e.g. flipping properties);
 - c. Businesses involved in gambling; and/or
 - d. Any business activity that is prohibited by the City of Fredericksburg.
3. The applicant business owner(s) must have sufficient management capacity and expertise, as well as be of good character. Applicants must complete a one-page character evaluation document as part of the application. Additionally, the applicant must disclose any of the following:
 - a. Pending criminal charges, felony convictions, or whether the applicant currently is on parole;
 - b. Past due child-support payments; and/or
 - c. Past-due city taxes or fees (real estate, personal property, licenses, or utilities)

(Any such disclosures will require additional detail and explanation for further character evaluation by EDA staff in order to determine eligibility, and may result in rejection of the application at the discretion of the loan committee.)
4. The applicant business owner(s) must be compliant with all city, state, and federal licensing requirements. The applicant must have all necessary permits in place before loan may be executed.
5. Applicants (or its owners if the applicant is a limited liability company or corporation) must be United States citizens or permanent residents. If the applicant business owners(s) do not meet this requirement, they may still apply if they can provide a full guaranty from a citizen or permanent resident.
6. The applicant must meet the small business size standard, defined as a business that
 - a. is independently owned;
 - b. has a net worth (or net assets) of no more than \$5 million;

- c. reports average net profit after federal income tax for the preceding two years of less than \$2 million; and
 - d. has less than 50 employees.
7. The applicant may be required to enter into a technical assistance agreement with UMW Center for Economic Development's Small Business Development Center (the "SBDC"). Located in Fredericksburg and serving all of Planning District 16, the SBDC is a resource center that assists the small business community via management training, industrial and demographic research, and free, confidential one-on-one consulting with a focus on capital access and management planning.

While the SBDC can provide a variety of information about resources and best practices regarding operations, the organization has five main areas of focus that are considered critical to a small business's success:

- a. Business plan writing;
- b. Start-up assistance;
- c. Cash-flow management;
- d. Marketing; and
- e. Business loan proposal assistance.

During its loan review process, Fredericksburg EDA will determine if assistance through SBDC is required and, if possible, exactly what assistance will be required (e.g. business plan, projections, marketing, or other seminar attendance such as QuickBooks training). Once that determination is made, the applicant will be connected to the center to begin that process. Records of attendance at seminars or meetings with SBDC staff may be required as part of loan approval.

3.2 Borrowing Limits

InvestFXBG offers loans in an amount between \$15,000 and \$50,000. Larger loan amounts may also be considered under special circumstances.

3.3 Loan Pricing and Other Terms

Interest rates are generally priced based on the Wall Street Journal Prime Rate (WSJP) but may be adjusted during underwriting based upon the overall risk assessment of the loan.

Loan terms are generally four years or less, although longer loan terms may be considered by the loan committee under certain circumstances.

One time or monthly fees may be set by the EDA or its contractors for loan origination and/or servicing.

3.4 Application Process

The applicant business owner(s) may be required to meet with staff of the City of Fredericksburg, Department of Economic Development and Tourism (EDT) before submitting an application as part of pre-application screening. They must then submit their application to EDT for review. The application will then be passed to the EDA Loan Committee. The EDA Loan Committee may request additional information or terms from the applicant. The EDA Loan Committee may then make a recommendation that the application be put forward for underwriting. The underwritten package will then be submitted back to the EDA Loan Committee for review and final decision by the full Board of the Economic Development Authority.

Each application must include the following:

1. Standard InvestFXBG Application Form
2. Business Plan (for businesses less than two years old);
3. Business tax returns for previous two years;
4. Most recent interim business financial statements (P&L and Balance Sheet), no older than 90 days;
5. Personal Financial Statement from each owner providing a loan guaranty;
6. Personal tax returns from each owner providing a loan guaranty;
7. Personal History/Character Evaluation Form; and
8. Any other information deemed by the EDA Loan Committee necessary to fully underwrite the loan/grant request.

3.5 Underwriting

The decision to make a loan is based on exercising due diligence in analyzing the applicant's ability to repay the proposed loan over its term. The primary source of repayment for loans is cash flow generated by the operating company. "Due diligence" means appropriate analysis of the operating company's overall financial condition, including profitability trends, cash flow and balance sheet (including contingent liabilities), industry, management, economic trends, real estate and financial considerations for place of business, and other factors that may affect the strength and stability of the operating company's cash-generating sources. Due diligence also means the review and analysis of the owner's individual financial and credit strength, including a review of the individual's credit report.

For an existing business, historical cash flow must be sufficient to meet all obligations, including the proposed debt service for at least the most recent year-end. For a new business, projections must demonstrate the ability to service debt, and projections must be analyzed for reasonableness and completeness. Additional collateral or guaranties may be required for start-up businesses.

Other underwriting policies and procedures include:

1. *Guarantors:* All owners of 20% or more of the operating company must provide a full personal guarantee. If two owners are married to each other and their combined ownership percentage is greater than 20%, then both spouses must provide a full personal guaranty. Credit underwriting issues may additionally require the guaranty of an owner(s) with ownership between 5% and 19%. An owner with less than 5% will not be required to personally guarantee the loan unless that 5% represents a controlling interest in the company. All loans to corporations, limited liability companies or other entities must have at least one personal guarantor regardless of ownership interest.
2. *Collateral:* Security shall be required when feasible. In the case of fixed-asset loans, security may be in the form of liens on the assets financed. Liens upon other non-project assets of the applicant may also serve to secure the loan. A complete and detailed list of equipment and/or machinery with serial numbers must be provided by the applicant for loans that are secured by equipment and/or machinery with liquidation value over \$5,000 for completion and recordation of the UCC lien.
3. *Bankruptcy:* Extensions of credit to operating companies or individuals who have filed for bankruptcy must be carefully evaluated on a case-by-case basis.
4. *Place of Business:* The applicant must have stable real estate arrangements for its/their place of business, including current mortgage or rent payments, a sound relationship with its/their lender of landlord, etc.

3.6 Credit Approval and Loan Authority

The EDA Loan Committee shall review all applications. Loan Committee will consist of two EDA Board members, with a third member appointed as an alternate who shall serve on the Committee in the stead of

any member of the Loan Committee who would have a conflict of interest or a scheduling conflict. The Director of the City of Fredericksburg EDT shall also appoint an EDT staff member to serve ex officio on the Loan Committee. The Loan Committee shall invite input from outside members if they have particular expertise that is useful to evaluating a particular application. All members of the Loan Committee are required to participate in meetings or actions in order to meet quorum. The Loan Committee may conduct its meetings, including voting on loan approvals or recommendations, by telephonic or electronic (e-mail) communications. The Loan Committee will have the authority to recommend applications for underwriting and to forward the underwritten package to the full EDA Board with their recommendation.

3.7 Board of Directors

The Board of the Economic Development Authority must approve all loans.

3.8 Loan Commitment Letter

The Loan Commitment letter will not be provided to the customer until the Loan Committee process has been completed and approval has been obtained. The Loan Commitment letter will outline the terms and conditions of the loan.

3.9 Funding

Once approved, the timing of the release of funds will be determined on a case-by-case basis and the funds must be utilized for the stated purpose on an expedient or as-scheduled basis..

3.10 Breach of Terms

Should there be a failure to pay the loan, a material misstatement in any of the information provided by the applicant, or a breach of any of the loan documents signed by the applicant, the EDA and its affiliates reserve the right to pursue any and all remedies available under Virginia law.

3.11 Borrower – Lender Relationship

The EDA does not partner with borrowers, nor does it provide sponsorships or donations for events.

4. Closing

A loan administrator will be assigned to manage the closing needs of both the EDA and applicant. The loan administrator or program analyst will ensure that the closing process is timely, the closing file is properly and completely documented, and the terms of the closed loan are properly approved.

5. Servicing

The EDA or its Agent shall service loans.

5.1 Account Management

An Agent for the EDA will be assigned who will act as loan administrator. The loan administrator will be assigned to manage the servicing needs of both Fredericksburg EDA and of the applicant. The loan administrator will ensure that the closing process is timely, the closing file is properly and completely documented, and the terms of the closed loan are properly approved. The loan administrator will also oversee prompt compliance with loan documents, assure completeness and accuracy of servicing files, and recommend changes in risk codes promptly upon discovery of developments necessitating such changes.

Fredericksburg EDA may contract with a commercial lending organization as the depository of the loan fund, to serve as the servicing agent, and/or provide any or all of the following services:

- Monthly payment notices to borrowers;
- Past-due notices;
- Calculation of interest and principal payment due each month;
- Quarterly (or monthly) accounting to Fredericksburg EDA of principal and interest received on all accounts together with an accounting of unpaid balance remaining;
- Delinquent account reports;
- Annual ledger listing on each account;
- Loan collection services including asset liquidation when given written notification;
- Monitoring receipt of any ongoing financial reporting requirements from borrowers; and
- Any other responsibilities or services as agreed to by Fredericksburg EDA and the servicing agent.

5.2 Loan Files

Loan application, copies of all loan documents and the servicing file constitutes a complete loan file for a borrower. A complete file shall be maintained for each borrower, *with no exceptions permitted*. Original loan documents will be held by the Servicing Agent with copies maintained by EDT for Fredericksburg EDA. Any partial or fully approved loan application must be retained for two years following submission. Once a loan has closed, the complete loan file must be retained for a period of two (2) years after (i) the loan has been repaid in full, or (ii) the date upon which the borrower has defaulted and the EDA has determined the loan to be uncollectible.

5.3 Loan Reviews and Management System

The EDA's Loan Servicing Agent will create a tickler notification system to, from time to time, ensure that each loan has all required information for the life of the loan, to include:

- Updated insurance policies and other requirements;
- Current UCC filings (must be renewed every 5 years);
- Any quarterly or annual financial reporting;
- Any ongoing loan risk rating requirements.; and

5.4 Ongoing Reporting

The EDA reserves the right to require loan recipients to provide ongoing reporting and/or present a business update in person at a regularly scheduled EDA meeting. The update can be presented in closed session if appropriate.

6. Other Program Policies

6.1 Litigation

If an applicant is involved in or anticipates being involved in any lawsuits, care must be taken to analyze the potential risk to the business and its ability to continue to generate sufficient cash flow to repay debt service.

If legal action is threatened against Fredericksburg EDA or its employees or directors, or the City of Fredericksburg Department of Economic Development and Tourism or its employees, the executive director must notify corporate counsel immediately.

If any employee is served a subpoena to testify in a matter involving Fredericksburg EDA, a copy of the subpoena should be forwarded to the executive director immediately.

If an applicant threatens to file or files bankruptcy, the program manager must be notified immediately.

6.2 Conflicts of Interest

Conflicts of interest are strictly prohibited. Fredericksburg EDA members involved in credit decisions shall not be involved in any transaction that could be construed as involving anything less than a fully objective evaluation of the merits of a credit request. All employees, directors, and loan committee members are required to sign a conflict of interest statement - these may be in addition to standard EDA and City of Fredericksburg COI Statements.

6.2.1 Exchange of Credit Information

If the applicant consents, credit information may be shared with organizations that are contracted with Fredericksburg EDA to perform any function within this program, to include underwriting, approval, funding, and ongoing servicing during the life of the loan; however, all such information is to be treated as highly confidential. All employees, directors, and loan committee members will be required to execute a confidentiality agreement.

6.2.2 Concentrations of Credit

Prudent portfolio risk management requires that concentrations of credit be actively identified, diversified and managed. No more than 20% of loans outstanding will be made to a particular industry segment (as determined by NAICS Code), unless approved by the Fredericksburg EDA Board or its designated committee. In its sole discretion, Fredericksburg EDA can limit its exposure to additional lending in a certain industry if that industry, or closely related industries, have proven to be problematic within the existing loan portfolio. Specific industry concentrations will be periodically reviewed and policies established as market conditions dictate.

6.2.3 Exceptions to Credit Policy

It is expected in the normal course of business that exceptions to policy will occur. The intent of the credit policy is to define the boundaries of acceptable degrees of risk; accordingly, deviations from policy are justified only if they result in risk consistent with policy intent. The policy exceptions must be clearly outlined in the loan package with mitigating factors clearly explained.