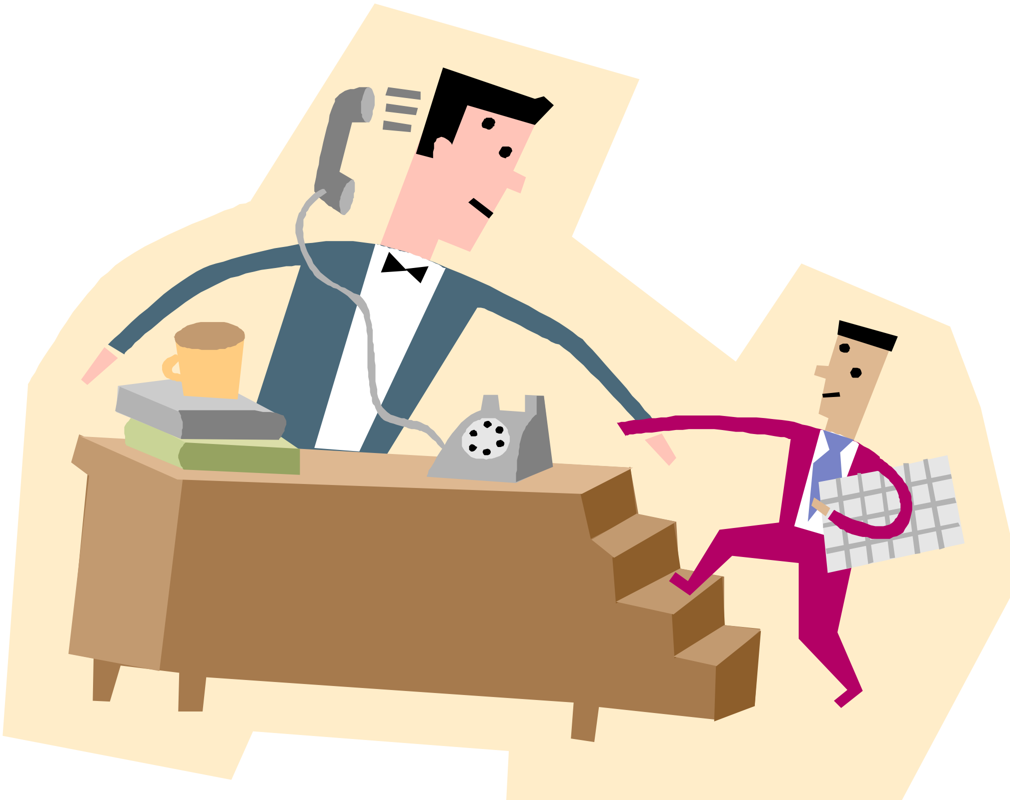

CDBG Micro-Loan Guidelines

Maine Community Development Block Grant Program

Maine Department of Economic and Community Development

www.meocd.org

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EQUAL HOUSING OPPORTUNITY

Introduction

The Community Development Block Grant (CDBG) Program Micro-Loan Program provides communities with funding to create a pool of capital for businesses creating or retaining jobs for low-to-moderate income people.

Communities receiving these funds establish a loan review committee, create program guidelines to govern how the money is loaned, track jobs and do other administrative tasks. This guide outlines procedures and forms that a community must use to administer their micro-loan fund.

The guidelines in this book may be modified to suit the needs of your business community but the modifications **must be consistent** with federal regulations. To ensure this consistency, a municipality must certify to the Office of Community Development that all applicable federal regulations have been met. If you have questions, contact your Project Development Specialist for more information and guidance.

Administering a Micro-Loan Program

Step #1 - Establishing a Step #1 - Micro-Loan Committee

Micro-Loan grantees must establish a loan review committee. This committee will review and approve applications to the loan fund.

Micro-Loan Committee Composition

The following members should comprise a loan review committee:

1) Selectperson/Councilor appointed by the Selectpeople/Council.
2) Businessperson appointed by the Selectpersons/Council.
3) attorney appointed by the Selectpersons/Council.
4) Certified Public Accountant or practicing accountant appointed by the Selectpersons/Council.
5) resident appointed by the Selectpersons/Council.

The Town/City Manager and the Community Development Director may participate in an ex-officio, non-voting, capacity.

All appointments to the committee will be made on the same date and will be for at least a year and to be conducted by the described organization.

Municipalities that decide to create a Micro-Loan Review Committee other than as described above, must contact the Office of Community Development during Phase II and discuss their alternative. If changes in the loan review committee representation are made after Phase II, please notify OCD in writing before finalizing the change. OCD staff will review the proposed change and notify the municipality if the loan review committee change is eligible for certification.

If a municipality currently has an operating loan review committee that it wishes to also designate as a Micro-Loan Review Committee, the municipality must submit the operating procedures of this entity to the Office of Community Development. The Office will review the information to see if the committee can be certified to perform the Micro-Loan reviews on behalf of the municipality.
The Micro-Loan Committee shall select a Chair to conduct the proceedings of the loan reviews and a Secretary to record all proceedings.

Quorum

A minimum of three (3) committee members must vote to constitute a quorum. All votes must be recorded.

Administering Your Micro-Loan Program

Responsibility for Compliance

A community receiving a Micro-Loan grant is solely responsible for the administration of its program. A community may choose to sub-contract with a grants administrator to handle these tasks but the community remains responsible for compliance with all CDBG Program regulations.

The Role of the Loan Review Committee

The Loan Review Committee (or an agent), on behalf of the municipality, is responsible for securing all necessary documentation and performing the required financial reviews and analyses. In addition, the committee is responsible for executing the loan and monitoring the business for job creation or job retention. (A comprehensive discussion of the loan review committee's review is contained in the appendix of this guide).

Lending Criteria

Location of Business: Businesses eligible for Micro-Loan funds must be located within the municipality, or group of municipalities, that contracted with OCD for the Micro-Loan Program funds.

Eligibility: Micro-Loan applications must be for activities eligible under Section 105 (a) (17) (A) of the Housing and Community Development Act of 1974, as amended. Loans can be used for:

1. Real property acquisition that is essential to the operation of a business;
2. Capital equipment;
3. Building construction and/or rehabilitation;
4. On-site utilities;
5. Inventories;
6. Working capital, and,
7. Relocation of persons and/or businesses as a result of property acquisition or facility expansion.

Under this program, activities that construct, support or assist housing-related projects are ineligible to receive Micro-Loans.

Maximum Loan Amounts and Leverage Requirements: The maximum micro-loan is $25,000. Micro-loans may provide up 100% of the total financing package up to $15,000. Loan packages of over $15,000 require a dollar-for-dollar match for each dollar over $15,000. The match provided to meet this requirement must represent a new investment or project.

Job Creation and Job Retention: To be eligible to receive a Micro-Loan through this program, the recipient business must be creating or retaining jobs for low to moderate-income people. 51% or more of the jobs create or retained must be taken persons from low to moderate-income households as defined by HUD.

Municipalities administering Micro-Loan funds are required to maintain records that will demonstrate that the job creation and retention requirement has been met. To help municipalities do this, the Office of Community Development has established a tracking system, the “Job Creation Benefit Data System”, included in the appendix.

Amount of financing per job created/retained: <u>A business must create or retain at least one job per loan.</u> As discussed above, 51% of the jobs created or retained must be taken by individuals from low to moderate-income households. **If only one job** is created or retained, it must be filled by a low to moderate-income person. **If two jobs** are created or retained, one of the two jobs must be filled by a low to moderate-income person. **If three jobs** are created or retained, two of the three jobs must be taken by low to moderate-income persons.

Financing must be “necessary and appropriate”: Committees reviewing Micro-Loan applications must perform an in-depth financial analysis to assess whether the financing is necessary in order for the business project to be viable. The analysis must also ensure that the Micro-Loan is not unduly enriching a business nor simply replacing other available financing. In addition, the analysis should also support the amount of financing in relationship to the public benefit that will be obtained from the project.

Terms of loan: No thresholds have been set for the terms of repayment of Micro-Loans. The loan review committee will set these terms after considering the financial gap to be filled, the potential rate of return and the benefit to be realized from assisting the applicant business.

Payment period: The loan review committee should require monthly payments unless another appropriate method is deemed suitable after a review of the application.

Application costs: Applicants for Micro-Loans must pay the costs associated with preparing the documentation and papers necessary for making application to the program. This includes legal document preparation/review, recordings/filings and closing statements/documents.

Collateral requirements: Collateral is required to secure all Micro-Loans. At the time of application, the business must provide documentation that verifies that the loan is 100% collateralized.

Penalties: Penalties for late payment will be set by the municipality. The following is a sample policy:

> ***Late Payment Policy***
> *In the event that a loan payment is 15 days in arrears, a late payment charge of 5% of the loan payment will be added.*

Loan Application Requirements

The Micro-Loan application must include the following information:

1. Business Balance Sheets:
    - Both historical and projected for a minimum of three years
2. Profit and Loss Statements
    - Both historical and projected for a minimum of two years
3. Proforma Cash Flow for two years
4. Current Balance Sheet and Profit and Loss Statement (not over 90 days old)
5. Current financial statements of principals with greater than 20% ownership existing or proposed
6. Information about the form of ownership
7. Resumes of principals and/ or management
8. Marketing analysis and plan
9. Project Budget
10. Existing and Proposed obligations of the business
11. Equity commitment letter; if required
12. Loan Collateral Form, and applicable documentation that substantiates the fair market value of such collateral
13. Documentation showing ownership of property or anticipated real property conveyances such as sales agreements, purchase options or lease agreements.

(A sample Micro-Loan application is included in the Appendix of this guide)

The Micro-Loan Application Process

1. Loan applications for the Micro-Loan Program will be evaluated on a first come, first serve basis. Decisions on loans should be made within 30 days from the date of loan application.

2. Applicants for Micro-Loan Program funds must be the owner, partner, chief executive officer or have power of attorney to make application.

3. The Loan Review Committee according to the requirements described in this Guide must review applications for Micro-Loan financing.

4. Upon final review of the application, the Loan Review Committee must vote to provide or refuse financing.

5. After the loan application has been approved, a written Loan Agreement will be developed. The Loan Agreement must state all of the terms of the loan including any specific conditions for the loan. An authorized municipal representative and the applicant must sign the Loan Agreement.

6. Unsuccessful loan applicants may request reconsideration by the Loan Review Committee in instances of error of fact or procedure. This reconsideration may not be based on judgments concerning the feasibility of the proposed project or creditworthiness of the applicant.

Executing the Loan

The municipality is responsible for securing the following loan documents upon execution of the loan:

1. Micro-Loan Agreement
2. Corporate Guarantee
3. Promissory Note
4. Mortgage Deed
5. Security Agreement

The cost of filing these documents may be passed on to the applicant.

The municipality should have their attorney review all loan documents and ensure that they are appropriate for the particular applicant and the town.

The Loan Review Process

The local Loan Review Committee acts as the municipality's primary assessor during the loan review process. The Committee is required to perform an in-depth analysis of all business loans. This analysis includes insuring that the loan will meet all eligibility, national objective and financial analyses required by the CDBG Program. All loans under the town's Micro-Loan Program must meet these requirements.

Determining Eligibility

The CDBG assistance must be "appropriate."

Under HUD's current policies, a loan review committee must review a business' need for financing as part of its loan application deliberations. A decision by the loan review committee to approve a Micro-Loan should be based on the amount of assistance requested, a demonstrated need for financing and should allow the business a reasonable return on its investment, consistent with industry standards for that type of business.

The CDBG assistance can only be provided where a national objective is met.

Economic development activities like the Micro-Loan Program must meet the HUD national objective of benefiting persons of low to moderate income. To meet this objective, at least 51% of the jobs created or retained as a result of a Micro-Loan award must be taken by persons of low to moderate income.

A financial analysis must be performed.

The primary function of the Loan Review Committee is to review the applications submitted for Micro-Loan funding. Their financial analysis consists of two parts:

1. **Initial Consideration**
   The Committee determines the need for a loan and devises a loan structure that insures business profitability.

2. **In-depth Review**
   In this stage, the Committee examines the loan application as described earlier and evaluates the loan feasibility within the guidelines of the program, financial considerations and meeting all CDBG requirements.

Municipal Loan Review Capacity

If a municipality or the Office of Community Development does not feel that the appropriate level of review can take place at the local level, the municipality can choose to have an agent perform the necessary reviews for it. This should be a hired individual with lending experience, a local bank, a financial consulting firm, a Regional Planning Commission with the appropriate loan services and experience, a Small Business Development Center, etc.

If a community utilizes an agent, the Loan Review Committee must still vote on accepting or rejecting an application and will act on behalf of the community to execute the loan documents. In addition, the municipality must contact OCD during the Phase II process to explain how the program will be administered and provide OCD with the qualifications of the agent. OCD must approve the choice of agent before a contract for services is executed.

Loan Committee Reviews

The following section outlines the level of review that a Local Loan Committee must perform in its capacity as grantor of Micro-Loan funds. In addition to reviewing each aspect, the Committee must maintain documentation describing how each criterion is being met in a given loan application.

Review Criteria

1. **CDBG assistance can only be provided to businesses that demonstrate that the assistance is "appropriate" to carry out the economic development project.**

The Loan Review Committee must consider the business entity's need for financial assistance, the amount of the loan and the benefit to be received by assisting the business. CDBG assistance should allow the business a reasonable return on investment, consistent with industry standards for that type of business. CDBG assistance which is excessive when comparing the actual needs of the business in making the project financially feasible and the extent of public benefit expected to be derived is not considered "appropriate" under HUD policies. Such a loan would not meet the statutory obligation required of economic development projects.

The following elements must be included in each Loan Review Committee determination:

Reasonableness of Proposed Project Costs
Each Project cost element should be reviewed to insure that the cost is reasonable and is consistent with third party, fair-market prices for that cost element.

Commitment of Other Sources of Funds
All projected sources of funding should be reviewed to insure that all sources, especially private debt and equity financing are firmly committed and are available to invest in the project.

No Substitution of CDBG Funds for Private Sources of Funds
The municipality shall financially underwrite the project and insure that CDBG funds are not being substituted for available private debt financing or equity capital.

In cases where no owner cash equity investment is included, the Loan Review Committee must verify the inability of the business to make an equity investment.

The review should be consistent with recognized industry standards for the type of project involved, the rates of return on equity investment and the level of risk.

Front-end analysis is critical in cases where CDBG funds are spent for "up-front" costs such as land acquisition or construction of speculative buildings. The Review Committee should insure that a significant equity commitment by the for-profit business exists and that the level of certainty of the end use of the property or project is sufficient to achieve a national objective within a reasonable period of time.

Establishing CDBG Financing Terms
The amount of CDBG assistance provided to a for-profit business should be limited to the amount, with appropriate repayment terms, sufficient to allow the project to go forward without substituting CDBG funds for available private debt or cash equity.
The loan should not limit CDBG funds to the extent that the success of the project is in jeopardy. However, equity funds should bear the greatest risk of all funds invested in the project.

Assessing Public Benefit

Loan review should also include an assessment of the public benefit to be derived from approving financing for the project. This assessment should include:

- the number and type of jobs to be created or retained;
- the job needs of low to moderate income persons;
- the extent to which a business provides essential services; and,
- increases the tax base.

The Review Committee should document those factors it considered and should include a look at the risk of the project and the effect on the public benefit if the project fails.

2. CDBG assistance must minimize business and job displacement

Each loan should be reviewed to assess the potential of causing displacement of existing businesses and jobs in the neighborhood where the project will be located. Should the review show potential displacement, it should take steps to minimize the potential for displacement.

3. **The project must meet the national objective of creating or retaining jobs for low to moderate income persons**

To meet this objective, economic development activities creating or retaining jobs must show that 51% of these jobs are taken by persons of low to moderate income. To show that a project meets this standard the following documentation must be provided.

For Created Jobs

1. A written commitment from the business that at least 51% of all jobs created on a full-time equivalent basis will be held by low to moderate-income persons.
2. A listing, by job title, of employees at the time the application for assistance is submitted.
3. A listing, by job title, of the permanent jobs to created as a result of the CDBG assistance.
4. Evidence supporting the estimated number of jobs to be created.
5. A listing, by job title, race, ethnicity, gender and disability status, of the permanent jobs actually created for and taken by low to moderate income persons. (this review should be conducted during the performance of the loan)
6. A description of how the low to moderate-income status of those persons hired was determined. (this review should be conducted during the performance of the loan)
7. A description of how the total number of jobs created was determined. (this review should be conducted during the performance of the loan)

To determine of a person is of low to moderate income, the entire family income and size must be considered. To verify that each individual worker is of low to moderate income:

1. A file is maintained that includes the necessary documentation about the individual that determines low to moderate status.

2. Referrals from employment agencies that agree to refer individuals who they determine to be low to moderate-income persons based on HUD’s income levels and considering both family income and size. Such entities making referrals must maintain the documentation they used for verification.

3. A written certification by a person of his or her family income and size to establish low to moderate-income status.

For Retained Jobs:
Jobs may be considered retained only when it can be demonstrated that, without CDBG assistance, the jobs would be lost. Retained jobs counted for the purposes of loan review are limited to the total of those jobs **known to be held by low and moderate income persons** at the time assistance was provided together with **any other jobs that can reasonably be expected to become available through turnover to low to moderate income persons** in a period of two years thereafter.

In case where financial assistance is being sought to retain jobs, the following documentation is required:

1. Clear and objective evidence certified by the CEO of the specific business that, in the absence of the CDBG assistance, the jobs would be lost.

2. A commitment of the business to meet the standard for retained jobs involving the employment of low and moderate-income persons.

3. A listing, by job title, race, ethnicity, gender and handicapped status, of the employees at the time the assistance is provided.

4. Listing, by job title, of permanent jobs to be retained, indicating which were held by low and moderate-income persons at the time the assistance was provided.

5. If applicable, identification of any of the retained jobs (other than those known to be held by low and moderate income persons) which are projected to involve the employment of low and moderate income persons through job turnover within two years of the time assistance is provided. The basis for such projections should also be included with this material (review to be performed by the grantee during the performance of the loan).

6. For jobs claimed to have been taken by low and moderate-income persons based on job turnover; (review to be performed by the grantee during the performance of the loan).

    a) A listing of each job which has turned over to date, indicating which of those jobs were taken by low and moderate income persons.

    b) A description demonstrating the “taken by “ standard.

A basic requirement regarding job creation or retention is that <u>only permanent jobs</u> may be considered in determining benefit for low and moderate persons; temporary jobs such as construction jobs may not be considered, but would have to be converted to a full time equivalent basis for purposes of calculating the 51 percent benefit test.

C. FINANCIAL ANALYSIS

Documentation should consist of a financial analysis of the business entities’ needs using the following steps.

Initial Overview:

a) **Project Type:**

There is essentially only one type of project that is eligible with Micro-Loan funds and that is where the entity seeking the assistance is also the owner/lessee and the occupant/user of the property. Typically these projects involve the construction of, or an addition to, an industrial or commercial facility, the procurement of equipment or the use of working capital. As is set forth in the Final Statement, housing projects are not an eligible use of Micro- Loan funds.

b) **Evaluate the proposed project costs:** (the use of funds to complete the project)

Crosscheck costs with appropriate industry standards. The goal is to conclude that all costs are reasonable. Crosschecking should include hard and soft costs, particularly developer's fees.

c) **Verify and Maximize Private Sources of Funding:** (the sources of funds necessary to complete the project)

Both private debt and equity must be verified. Verification means ascertaining that: the source of funds is committed; that the terms and conditions of the committed funds are known; and the source has the capacity to deliver. All private sources should be maximized for the given project. No CDBG funds should substitute for available private funds.

d) **Determine the Reason for the Need for CDBG Assistance to Complete the Project:**

There are three general, justifiable reasons for CDBG assistance:

I. Financial Gap: The private sector can maximally raise only a portion of the debt and equity to complete the project, but the returns to the user are inadequate to motivate an "economic person" to proceed will the project. That is, project risks outweigh rewards.

II. Rate of Return: The ROR is usually measured by the following operating ratios:

- Profit before taxes/ tangible networth (expressed as a percent)
- Profit before Taxes/Total Assets (expressed as a percent)
- Sales/Net Fixed Assets
- Sales/Total Assets

Other important underwriting issues to consider in User Projects include officers compensation and Liquidity and Coverage ratios which help to measure a business; health. Liquidity is a measure of the quality and adequacy of current assets to meet current obligations as they come due. Coverage ratios measure a firm's ability to service debt.

III. Locational: For a Project in its most simplified version, the private sector entity is deciding between Site A and Site B for it's project. The CDBG grantor wants the project at Site A; but the private entity argues that the project will cost less at Site B and will require subsidy to equalize the costs in order to locate at Site A. the reasons for the cost differential are varied and must be evaluated on a case-by-case base. Most common reasons are: on-site costs (e.g. soil conditions), prices of land (downtown vs. Suburban), distance to markets, and special off-site costs (e.g. road, sewers, etc.). The objective here is to quantify the cost differential to the extent possible between site A and B so that the financial needs of the business may be judged in relationship to the public benefit and avoid an undue enrichment of the business.

e) **Size the CDBG Assistance:**

Based on the needs that were identified in step d, determine the **minimum** amount of CDBG funds necessary to stimulate the private investment. This analysis will generally require a 5 to 10 year proforma for the proposed project. Ideally, the private sector applicant for CDBG funds will submit one proforma with 100 percent private financing and a second proforma with CDBG funding.

f) **Price the CDBG Loan:**

If the CDBG subsidy is to be a loan to a private entity**,** the debt service payments should balance the maximum return to the public lender with the economic health of the project. Returns to the entrepreneur in excess of industry averages should be avoided, but too high an interest rate for the CDBG assistance may weaken the project. The most direct pricing procedure is to work backwards from the proforma's cash flow dollars available to service the CDBG loan (after project expenses, private loan debt service, and an appropriate return to the private entity) to an interest rate and term that equates to the available cash flow.

In- Depth Review:

a) **Developmental Feasibility:**

A deal can be financially sound, but it may not be doable if developmental or governmental obstacles will be overcome as a matter of course. There are questions that need to be asked concerning the likely hood of a project's success. The first group of questions pertains to possible geographic and physical restrictions.

- Is the design and construction of the facility appropriate for the facility?
- Are all needed utilities available to the facility or site?
- Does the facility have sufficient transportation access for the delivery of inventory and other goods/services?

A second group of questions concerns possible governmental restrictions.

- Is the land properly zoned?
- How many official and quasi-official governmental agencies need to give their approval and how long will it take?
- Does the proposed development comply with municipal ordinances?

- Is an environmental review required at the local or State level?

b) **Technical Feasibility:**

A determination must be made as to whether or not the operations that the business is proposing will in fact be possible from a technical standpoint. Industrial or businesses that are likely to manufacture a product must be reviewed to determine whether or not their process or product is viable.

Following are some of the questions that should be asked of an entrepreneur pr businessperson to determine the technological merits of his/her proposed business venture:

- What key technologies and skills are required to develop and manufacture the proposed product or service?

- What problems are anticipated in developing and/or manufacturing the product or service?

- Does the product or service be produced or delivered at competitive costs?

A problem that may be encountered in trying to evaluate and assess the worthiness of financing a new technology is a lack of technical knowledge and expertise. In such instances, do not hesitate to draw on outside experts such as a college or university faculty.

c) **Economic Feasibility:**

A very important aspect in making a financial analysis is to also consider the applicant's capability to manage a business. The risk associated with loaning a businessperson money can be better evaluated in light of the management strengths and weaknesses. In some instances weak financial statements can be overridden by a successful history of business management. For example. The financial statements of many young firms appear weak, making the business management capabilities of the businessperson a critical variable.

Analyzing the management capabilities of a businessperson is not as easy for the public sector as it might be for the private lender who often has the benefit of an established relationship to rely on. It involves assessing the following qualities of the businessperson: 1) the capability and expertise to handle the type and size of project that is being proposed; 2) the ability to anticipate, understand and solve company expansion problems, personnel problems and personal weaknesses.

A businessperson's capabilities should be assessed early in the decision making process since they are an influential factor in deciding to proceed or terminate lending discussions. Therefore, at least one interview with the businessperson and a tour of the business should be in the process.

In assessing the economic feasibility of a project, the following questions should be asked:

- What experience and skills does the businessperson have? How relevant are they to the project that is being proposed?

- Do the ideas sound reasonable?
- What are the strengths and weaknesses? Does the applicant know what his/her weaknesses are? How does the businessperson compensate for them?
- Does the applicant demonstrate a clear understanding of the business' needs – inventory and receivable needs – and capacity to support added debt?

d) **Financial Feasibility:**

The two ways a lender expects a borrower to repay a loan are from 1) operating profits and a positive cash flow, and 2) the sale of collateral to a third party, with the sale proceeds applied against the loan balance. Lenders are much more interested in being repaid through profits and a positive cash flow or regular cash payments than through the cash value of collateral. The reason for this is that it is much easier and less expensive for the lender to be repaid in regular cash payments than to go through foreclosure proceedings.

Cash Flow

Credit analysis involves assessing the business' ability to be profitable and repay its debts. Conducting credit analysis will assist the grantee in understanding a firm's current financial position. It must be remembered that numbers can be misleading; businessperson's management capability.

The balance sheet and the profit-and-loss statement are the most important financial statements to analyze in determining a business' ability to repay a loan from profits. The importance of these statements to the decision making process will be discussed later.

Collateral

The longer the term of a loan, the more important collateral becomes because the likelihood of outside or inside influences (e.g., a business cycle downturn or error in pricing or production) affecting the profitability of the business causing default is greater. Land is considered the best security for long-term loans because its future value is easier to estimate. Appraisals are important in assessing the value of a firm's collateral (e.g., land, machinery and equipment), however, a tour of the business should also be conducted so that the grantee can asses the firm's collateral first-hand.

Before determining the financial feasibility of a deal the project costs should be accurately documented and potential problem situations should be identified. Often businesspersons have not thought through all the steps and associated costs necessary to complete a project. Therefore it is important that the grantee evaluate the proposed total project cost and project components and associated cost breakdown and compare them to the loan amount being requested.

FINANCIAL STATEMENTS

In simple terms, the profit-to-loss statements reflect the dynamic changes that occur over a specific period of time, such as a month or a year. Generally specking profit-to-loss statements covering the overview of the company. Historic profit-to-loss statements provide the strongest indication of how well the firm will survive in the future as well as how well it has operated in the past. Therefore, they present a “moving picture” of the business’ financial condition. More specifically, they measure costs and expenses against gross revenues over a definite period of time to show the net profit or loss of the business for the entire period. The following are some questions that should be considered in analyzing a firm’s **Profit-and-Loss Statement(s):**

- Are the firm’s sales growing? If not, why? If yes, how rapidly? If rapidly, can the firm continue to grow at this rapid rate without losing control of its operation?

- Is the firm profitable? If not, why? If yes, how profitable is it?

- Is the firm’s profitability consistent with industry standards? If not, why? If yes, how profitable is the firm in comparison to industry standards?

- How much are the firm’s discretionary expenses (e.g., officer salaries, rent, dividends)? Are these discretionary expenses hiding or understating expenses?

Below are some questions that should be asked in assessing the firm’s **balance sheet**.

- How well does the firm control its inventory?

- Does the firm collect from its customers on time?

- Does the firm pay its suppliers in a timely fashion?

- Are the owners committed to making the firm profitable or are they borrowing from it?

Other financial statements that are important to review in determining financial feasibility of a deal include **Projections** and **Personal Financial Statements**. Projections are assumptions and estimates of future financial statements, profit-and-loss statements, and balance sheets. Projections are based on reasonable assumptions developed through 1) historical analysis of past performance and 2) knowledge of company and general economic trends and changes that are occurring in those trends. Among other things projections should show is what the firm’s future cash flow will be and whether or not debt can be repaid. Personal financial statements are the balance sheets of the repaid. Personal statements are the balance sheets of the owners of a business. They are an important tool in verifying a company’s financial position, identifying hidden company liabilities and equity, as well as revealing other activities pr investments that direct an owner’s attention away from the firm.

BUSINESS RATIOS

Financial statements show how a business has performed in the past, while ratios help provide an indication of the business’ future performance. Ratios are indicators or comparative measures for spotting trends in the direction of a firm’s performance. They also help compare a business’ performance with the average performance of similar businesses as well as express relationships between balance sheet and profit-and-loss statement.

There are three kinds of business ratios: 1) balance sheet ratios which refer to relationships between various balance sheet items; 2) operating ratios which show the relationship between expense items; and 3) ratios that show the relationship between an item in the profit-and-loss statement and one on the balance sheet. The three most relevant business ratios are the current ratio, quick ratio and debt to equity ratio.

The current ratio, or working capital ration, is calculated by dividing current assets by current liabilities. It shows the relative working capital position of a firm and how free from claims its current assets are. It is a crude measure of a firm's liquidity or its ability to pay its bills. A minimum ratio of 2 to 1 is considered secure and indicates a positive working capital position.

State of Maine Community Development Block Grant

Micro-Loan Program Application

Personal Information

Name:
Date of Birth:
Home Address:
Town: Zip Code:
Telephone Number:
Length of time at current address:

Previous Address:
County:
Town: Zip Code:
Length of residency in Maine:
U.S. Citizen?

Number of People in your household:
List names, relationship and dependent status, if applicable. Include yourself.

NAME	Relationship	Dependent (yes/no)

Business Information

Is your business existing? proposed?
Business Name:
Date Started (if applicable):
Business Address:
Telephone Number:
Town: Zip Code:

Length of Time at Address:
Business Organization: (*circle one*)
Sole Proprietorship: Partnership:
Corporation: Non-profit For-profit
Joint Venture: Other

Is your proposal to start, expand or strengthen your business?
Explain the business, service or job you plan to begin, expand or strengthen:

How many jobs will your proposal create? Retain?
Of the created or retained jobs, many jobs do you plan to have taken by low-to-moderate income persons?
How do you intend to use your Micro-Loan? What positive impact will the loan have on your business?

Loan Amount and References

Loan Amount:

How much cash will you or your business be contributing to the proposal?

List three credit references:

Name	Address	Phone Number	Account Number

List three personal references:

Name	Address	Phone Number

Describe the qualifications, experience or training, which enables you to enter this business (attach your resume if available).

Is there a co-signer for this loan?
(*if yes, attach a personal balance sheet and most recent IRS tax return for co-signer*)
Will other sources of funds be used for this proposal?
(*if other sources, attach letters of commitment*)
Is there any pending litigation, governmental proceedings or consent orders against you or your business?
(*if so, attach a description*)
Have you or your company ever filed bankruptcy
(*if so, attach description*)
Have you or your company ever been involved in a criminal proceeding?
(*if so, attach description*)
Do you or your company have contingent liabilities as a co-signor, endorser, guarantor, or other?
(*if so, attach description*)

Please complete the following schedules:

Business Balance Sheets (Schedule 1) - please list your business' assets and liabilities. Don't duplicate data from your personal financial statement. Please submit (1) for the previous year, (1) for your current year and a projected balance sheet for each of the next (3) years.

Profit and Loss Statement (Schedule 2) - covering the previous year, and first and second year projections.

Proforma Cash Flow (Schedule 3) - covering your first and second year projections.

Personal Financial Statement (Schedule 4) - submit for all principals with greater than 20% ownership. Don't include information you will list on your business balance sheet.

Marketing Plan (Schedule 5) - please complete and attach additional information if applicable to your marketing plan.

Project Budget (Schedule 6) - please itemize all project costs and identify the source of funding.

Loan Collateral (Schedule 7) - please itemize all machinery and equipment valued at $500 or more, regardless of collateral status.

Certification of Intent to Meet CDBG National Benefit

A CDBG Micro-Loan fund award is contingent on meeting the national objective of creating or retaining jobs for low-to-moderate income persons. To meet this objective, 51% or more of the jobs proposed to be created or retained by this application must be taken by persons of low-to-moderate income (can include owner/principals).

I accept and understand my obligation to meet the CDBG national objective of benefit to low-to-moderate income persons as a condition of receiving this Micro-Loan. I further understand that I may be required to return the Micro-Loan if I do not meet the CDBG national objective.

Signature of Applicant: Date Signed:

Penalty for False or Fraudulent Statements

U.S.C. Title 18, Sec. 1001, provides: "Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, or makes any false, fictitious or fraudulent statements, or makes or uses any false writing or document knowing the same contain false, fictitious or fraudulent statement or entry, shall be fined not more than $10,000 or imprisoned not more than five years, or both."

I warrant and represent that the information provided is true and complete. I agree to notify you promptly in writing upon any material change in the information provided herein, and further acknowledge that you will continue to regard this statement as true and complete until your receipt of such written notification. You are authorized to make such inquiries, as you deem necessary and appropriate to verify the accuracy of this application.

Signature of Applicant: Date Signed:

BALANCE SHEET **Schedule 1**

Company Name: Date:

ASSETS

CURRENT ASSETS:		**CURRENT LIABILITIES:**	
Cash	$____________	Accounts Payable *	$__________
Accounts Receivable	$____________	Current Portion Long	$__________
(net)	$____________	Term Debt (due in 1 yr)	$__________
Merchandise Inventory	$____________	Other	$__________
Supplies	$____________		
Prepaid Expenses	$____________		
Total Current Assets	$____________	Total Current Liabilities	$__________
FIXED ASSETS:		**LONG-TERM LIABILITIES:****	
Fixtures & Leaseholds	$____________	Notes Payable	$__________
Improvements	$____________	Bank Loan Payable	$__________
Building	$____________	Other Loan Payable	$__________
Equipment	$____________		
Trucks/ Auto	$____________	Total Long Term Liabilities	$__________
Less accumulated depreciation on		Total Liabilities	$__________
fixed assets	$____________		
		Net Worth (Owner's Equity)	$__________
Total Fixed Assets	$____________		
TOTAL ASSETS	$____________	TOTAL LIABILITIES & NET WORTH	$__________

*Accounts Payable

NAME OF ACCOUNT	AMOUNT
1. ____	$________________________
2. ____	$________________________
3. ____	$________________________

** Long -Term Liabilities

NAME OF LENDER	AMOUNT
1. ____	$________________________
2. ____	$________________________
3. ____	$________________________

PROFIT AND LOSS STATEMENT
Schedule 2

Name: Business:

Report Period:	Previous Twelve Months	Projected First Year	Projected Second Year
Revenue (Sales)	XXXXXXXXXXXXXX	XXXXXXXXXXXXXX	XXXXXXXXXXXXXX
	X	X	X
Total Revenue Sales			
Cost of Sales	XXXXXXXXXXXXXX	XXXXXXXXXXXXXX	XXXXXXXXXXXXXX
	X	X	X
Total Cost of Sales			
Gross Profit			
Expenses	XXXXXXXXXXXXXX	XXXXXXXXXXXXXX	XXXXXXXXXXXXXX
Salary Expense; Sales People Office and Other	X	X	X
Payroll Expenses (taxes, etc.)			
Outside Services			
Supplies (office and operating)			
Repairs and			
Maintenance Advertising			
Car, Delivery and Travel			
Accounting and Legal			
Rent			
Telephone			
Utilities			
Taxes (real estate, etc.)			
Interest			
Depreciation			
Other Expenses (specify each)			
Miscellaneous (unspecified)			
Total expenses			
Net Profit			

PROFORMA CASH FLOW
Schedule 3

	FOR THE YEAR	
	Beg. ____________	Beg. ____________
	End. ____________	End. ____________
A. NET INCOME (LOSS)	$____________	$____________
ADD		
B. Itemized in Operations not Requiring Cash:		
1. Depreciation	$____________	$____________
2. Other: ____________________________	$____________	$____________
C. Cash Provided From:		
1. Proceeds Micro-Loan	$____________	$____________
2. Proceeds from Others	$____________	$____________
3. Increase (Decrease) in Accounts Payable Accruals and other Current Liabilities	$____________	$____________
4. Decrease (Increase) in Accounts Receivable, Inventories and Other Current Assets (Exclude cash)	$____________	$____________
Other: ____________________________	$____________	$____________
D. Total all A, B, C Items	$____________	$____________
E. Less: Cash Expended for:		
1. All construction, Equipment and New Capital Items (Loan Funds)	$____________	$____________
2. Replacement and Additions to Existing Property, Plant and Equipment	$____________	$____________
3. Principal Payment Micro-Loan	$____________	$____________
4. Principal Payment Other Loans	$____________	$____________
5. Other: ____________________________	$____________	$____________
Total E - 1 through 5	$____________	$____________

ADD

F. Beginning Cash Balance	$	$
G. Ending Cash Balance (Total of D minus E6 plus F)	$	$
Item G Cash Balances Composed of:		
Construction Account	$	$
Revenue Account	$	$
Debt Payment Account	$	$
O & M Account	$	$
Reserve Payment Account	$	$
Funded Account	$	$
Funded Depreciation Account	$	$
Others:	$	$
TOTAL – Agrees with Item G	$	$

PROJECT BUDGET
Schedule 6

Summary of Expenditures

ACTIVITY	MICRO-LOAN	PRIVATE FUNDS	OTHER FUNDS	TOTAL
Working Capital				
Inventory				
Real Property Acquisition				
Relocation of Persons and/or Business				
Clearance and Demolition				
Site Improvement				
Water/Sewer Improvements				
Building Const./Rehab.				
Parking Facilities				
Capital Equipment				
Professional Fees				
Other specify				
TOTAL PROJECT COSTS				

∗ CLEARLY DESCRIBE THE USES OF FUNDS IN THE PROJECT. INCLUDE ITEMS TO BE PURCHASED, CURRENT CONTRACTOR AND SUPPLIER ESTIMATES, INVENTORY TO BE ACQUIRED, WORKING CAPITAL TO BE EXPENDED, ETC. IDENTIFY SPECIFICALLY THE USE OF MICRO-LOAN MONIES.

Name: Business:

Item	Model or Serial #	Cost	Market Value	Any Existing License	Name of Lien Holder	Balance Owned	Will you Offer as Collateral

IMPORTANT: PLEASE READ CAREFULLY

This statement is being submitted in conjunction with a request for an extension of business credit to: (business name)

If you are relying solely on your income or assets in compiling this Statement to support any assets of the requested credit, including any guarantee, endorsement or other security, COMPLETE SECTIONS A AND C ONLY; If you are relying, in whole or in part, on the income or assets of another person, complete ALL SECTIONS, and furnish the requested information about the other person in Section B. If you are completing all sections, indicate in Section C, where applicable, the income and/or asset ownership interests of the other person upon whom you are relying.

SECTION A

Name:	______	Employer's Name:	______
Address:	______	Employer's Address:	______
Telephone:	______	Title or Position:	______
SS#	______	Business Telephone:	______

SECTION B

Name:	______	Employer's Name:	______
Address:	______	Employer's Address:	______
Telephone:	______	Title or Position:	______
SS#	______	Business Telephone:	______

SECTION C: Financial Information

ASSETS:		LIABILITIES:	
Cash on Hand and on deposit	______	Notes due w/I 1 yr.	______
Marketable Securities	______	Real Estate Mortgages	______
Cash value life insurance	______	Installment	______
Notes receivable	______	Other	______
Other current assets (itemize	______	Accounts Payable	______
	______	Taxes due or accrued	______
	______	other current liabilities (itemize)	
	______		
TOTAL CURRENT ASSETS	______	TOTAL CURRENT LIABILITIES	______

Personal Financial Statement - Schedule 4 (Page 2)

Real Estate		Notes due after 1 yr.	
Personal Property		Real Estate Mortgages	
Notes or mortgages receivable		Installment debt	
Investment in related companies		Other debt (itemize	
Other investments			
Other assets (itemize)			
TOTAL ASSETS		TOTAL Liabilities & Net worth	

BANK DEPOSITS

List all bank accounts, including savings accounts.

Name and Location of Bank	Cash Balance	Amount of Loan	How is Loan Secured?

MARKETABLE SECURITIES

Description of Security (bonds, stocks,etc.)	If pledged - to whom	Present Market Value	Present Loan Value	Payment Terms and Amount

LIFE INSURANCE

List all policies in which you are named as insured.

Beneficiary	Company	Type of Policy	Face Amount	Cash Surrender Value	Loans against Policy	If Assigned to Whom

REAL ESTATE

Description & Address	Title in Name Of?	If Mortgaged. To Whom?	Present Value	Present Mortgage Balance	Payment Terms and Amount

PERSONAL FINANCIAL STATEMENT - Schedule 4 (Page 3)

PERSONAL PROPERTY, EQUIPMENT, MOTOR VEHICLES, ETC.

Description	If Mortgaged, to Whom?	Present Value	Present Loan Value	Payment Terms and Amount

NOTES PAYABLE (Not shown above)

Lender	Security (if any)	Present Value	Present Loan Balance	Payment Terms and Amount

ACCOUNTS PAYABLE

Four Largest Creditors	Amount	Related Companies

1. What products or services will you sell?

2. To whom will the products or services be sold?

3. What steps have you taken to advertise your product or service?

4. What evidence do you have that there is a market for these products or services, i.e. how do you know your product or service will be purchased?

5. Have any individuals or businesses formally agreed to purchase your product or service? If so, please attach copies of agreements to this Marketing Plan.