

Stand Strong Business Recovery Loan Program

Policies and Procedures

City of Lancaster

March 2020

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Executive Summary

The purpose of the Stand Strong Business Recovery Loan Program is to provide established local businesses with the immediate funding they need to offset the sweeping impact the COVID-19 pandemic is having on our small business community. The City of Lancaster has responded swiftly and decisively to support our local businesses. The Stand Strong Business Recovery Loan Program provides financing needed to strengthen small business enterprises in this time of acute need for those affected by the COVID-19 outbreak.

This program aims to maintain viability and assist with recovery of various commercial businesses, as well as create stability for long-established and well-known local businesses. In addition, the program will aid in maintaining the City's sales tax base by providing emergency financing for business continuity and recovery.

Eligible businesses may qualify for \$5,000 to \$20,000 in low-interest loan funding through the program. Under unique circumstances, the amount of the loan may be increased to suit the business's needs, pending availability of funds and approval by the City Council.

In order to be considered for the program, a business must be an independently owned small business whose primary business operation is located within City of Lancaster city limits, who have been in business in the City of Lancaster for 12 months as of March 17, 2020, with annual revenue of less than \$3.5 million. Two interest rate options will be provided:

- Option 1: 0% interest for a term of 6 months to 1 year
- Option 2: variable interest rate equal to the City of Lancaster Portfolio Yield for up to 5 years; in no event will the rate exceed 3%

Payments will be due on a quarterly basis. There is no prepayment penalty for paying off the loan before the loan term is complete.

As limited funds are available, applications will be evaluated on a competitive basis. Loan priority will be given to businesses directly impacted by Los Angeles County closures in effect during the COVID-19 pandemic. Those which best meet the program criteria will be given priority for funding. The program will be available through December 31, 2020 or until program funds are depleted, whichever occurs first.

Section I: Program Components

Subject to the availability of program funds, established local businesses located in the City of Lancaster city limits may apply for loan funding of up to \$20,000 to assist them in business continuity and recovery after the COVID-19 pandemic has concluded, or at such time as mandated business closures are lifted. Under unique circumstances, the amount of the loan may be increased to suit the business's needs, pending availability of funds and approval by the City Council. Loans are offered for 6 months to 5-year loan term, with two interest rate options as follows:

- Option 1: 0% interest for a term of 6 months to 1 year
- Option 2: variable interest rate equal to the City of Lancaster Portfolio Yield; in no event shall the interest rate exceed 3%

Payments will be payable on a quarterly basis. There is no prepayment penalty for paying off the loan before the loan term is complete.

Section II: Eligibility

A. Eligible Area

The area served by the Stand Strong Business Recovery Loan Program shall be located within the city limits of the City of Lancaster.

B. Eligible Applicants

To obtain a loan under the Stand Strong Business Recovery Loan Program, applicants must adhere to the following:

- (1) Business Criteria
 - a. Independently owned small business whose primary business operation is located within City of Lancaster city limits, who have been in business in the City of Lancaster for at least 12 months as of March 17, 2020.
 - b. Annual gross revenue does not to exceed \$3.5 million.
- (2) Applications must be submitted by the business owner.
 - a. All business owners who hold 20% or more ownership must guarantee the loan and be listed on the application.
- (3) Credit
 - a. Principal business owner(s) must have reasonable and responsible personal credit history and an acceptable explanation for any derogatory marks. Bankruptcies and debt write-offs must be at least 12 months old.
- (4) Co-Signer
 - a. A co-signer with reasonable credit and sufficient income to re-pay the loan can be included as a guarantor to mitigate weaknesses in the loan request.
- (5) Cash Flow
 - a. Businesses must show that historical profits were sufficient to service the requested debt and these profits were impacted by the COVID-19 pandemic.
- (6) No member of the governing body, review committee, or any other official, employee, or agent of the City, or their immediate family members, are eligible for financial assistance under this program.
- (7) Applicants shall not be disqualified based on age, race, religion, color, handicap, sex, physical condition, development disability, sexual orientation or national origin.

- (8) Businesses not eligible for this loan program include, but are not limited to:
- a. Smoke shops/cigarette stores, pawn shops, payday lenders, home-based businesses, liquor stores, hookah lounges, adult entertainment enterprises, massage establishments, and gambling establishments.
 - b. The City Manager reserves the right to deny loans for businesses that have required the utilization of a disproportionate amount of City resources related to public safety and welfare.

C. Eligible Activities

The Stand Strong Business Recovery Loan Program is designed to assist local businesses with business continuity and recovery after the COVID-19 pandemic is mediated, or at which time mandated business closures are lifted. This program has several primary goals: to maintain the vibrancy of Lancaster's commercial centers by preventing permanent closure of businesses; maintain the City's tax base; retain jobs; and to aid small businesses in a time of acute need. Successful applications will be in keeping with these goals.

Loans shall be available for the following use:

- (1) Working capital expenses such as rent, payroll, utilities, services & supplies to assist with business continuity and/or recovery during this emergency.

Section III: Application Procedures

A. Timeline

The Stand Strong Business Recovery Loan Program will launch on March 25, 2020 pending approval by the Lancaster City Council. The program will continue through December 31, 2020, or until funds allotted to the program are depleted; whichever occurs first.

B. Application Materials

Application materials and a secure online submission portal are available at www.cityoflancasterca.org/standstrongloan.

C. Application Submittal

Applicants must submit a complete application online at www.cityoflancasterca.org/standstrongloan (Exhibit A). As a limited amount of funding is available, applications are accepted on a competitive basis. Applications may be submitted at any time during the effectiveness of the program; however, as funds will be awarded on a rolling basis, businesses are encouraged to apply as early as possible to increase the likelihood that funds will still be available at the time of application. Once program funds are expended, applications will no longer be available. Applications will be reviewed for completeness and to verify that the business meets the minimum requirements for eligibility. If the application is not complete, the applicant will be informed of the deficiencies. All financial information will be kept in a secured place with limited access by authorized personnel only.

The application packet must include the following:

- (1) Complete Loan Application
- (2) Business Tax Returns (1 year)
- (3) Profit and Loss statement showing monthly operating expenses and revenues (6 months)

- (4) Personal Tax Returns for each owner listed (1 year)
- (5) Business Bank Statements (3 months)
- (6) Statement of Expected Fund Use
- (7) Business Continuity & Recovery Plan

If the City determines false or misleading information was provided to obtain the loan, those actions shall be considered a default of the loan agreement, and may allow the City to seek remedies as stated in the Loan Agreement, up to and including a demand for repayment in full.

Section IV: Application Approval Process

A. Loan Committee Review and Approval

Applications will be evaluated by a Loan Committee composed of representatives of the Finance Department and City Manager's Office. Based on input from the Loan Committee, the City Manager will have the authority to execute the Loan Agreement.

Recognizing that the need is urgent, the Committee shall meet frequently as needed to review and act on loan applications on an expedited basis. If the Committee deems that additional information is required before acting on an application, it may postpone action until all necessary information is available to the Committee.

The applicant will be notified in writing of all Committee and City Manager determinations.

B. Evaluation Criteria

As limited funding is available, loans are offered on a competitive basis. The following criteria will be used to evaluate, rank and select applications for program loans. Priority will be given to those businesses which best meet the evaluation criteria. Businesses that do not meet all of the following criteria may still be eligible to receive loan funding; such determinations will be made at the sole discretion of the City.

- (1) Impact of Mandatory Closures – The business is directly affected by the closures and/or restrictions mandated first by Los Angeles County and the subsequent State of California order to close non-essential businesses.
- (2) Need - The business demonstrates a need for the loan, and has actively taken other steps to ensure business continuity and/or recovery.
- (3) Community - The business is a small, locally-owned, entrepreneurial business, that provides a unique experience or service to citizens.
- (4) Viability-The business's financial statements reflect a stable business that, but for the impact of COVID-19, would be able to continue operating.
- (5) Contribution -The business positively contributes to the synergy of the commercial area in which it is located.
- (6) Ownership - Independent, non-chain, non-franchised businesses will be given first priority.

Section V: Loan Terms

A. Type of Loan

The Stand Strong Business Recovery Loan Program provides low-interest loans for qualifying businesses. Loans are awarded for a term up to 5 years, with two interest rate options as specified

in section (B) below. Loan amounts will be available from \$5,000 up to \$20,000. However, under unique circumstances, the amount of the loan may be increased to suit a particular business's needs, pending availability of funds and approval by the City Council.

B. Loan Terms

Option 1: 0% interest for a term of 6 months to 1 year

Option 2: variable interest rate for up to 5 years equal to the rate of interest commonly known as the City of Lancaster Portfolio Yield announced at the December City Council Meeting each calendar year; in no event will the rate exceed 3%

(1) Payments will be due on a quarterly basis.

(2) There is no prepayment penalty for paying off the loan before the loan term is complete.

C. Recipient's Use of Funds

(1) Loan proceeds shall be used only to pay for bona fide business expenses such as rent, payroll, utilities, services, and supplies to assist with business continuity and/or recovery during this emergency.

(2) Recipient shall act on good faith to use the loan proceeds as prescribed.

D. Indemnity

The recipient shall defend, indemnify and hold harmless the City of Lancaster, including its elected officials, officers, employees and agents, from any claims, liabilities, costs, penalties or interest arising out of any failure or alleged failure of the loan recipient or its business operations.

Section VI: Award of Loan

A. Award Schedule and Conditions

If the loan application is approved by the Committee and City Manager, a date for awarding the loan will be set by the City. Prior to releasing funds, the following documentation must be in the project file:

(1) Complete Application Package

(2) Notice of Award issued by the City

(3) Executed Loan Agreement

Section VII: Post-Award Procedures

A. Distribution of Loan Proceeds

The City will disburse 100% of the loan funds to the loan recipient according to the terms of the loan.

(1) Loan disbursements will be made by check or ACH.

(2) Checks will be made payable to the business named on the application, not to any individual owner. Proof of deposit into a business account may be required by the City.

(3) ACH payments will be made to a verified business account, not a personal account.

B. Loan Servicing

A loan servicing file shall be established and maintained for each loan recipient that includes all written correspondence; a record of important telephone conversations; a list of applicable loan

covenants; and other documents, as applicable. The recipient will regularly deliver to the City those materials deemed necessary to monitor compliance with the loan terms and conditions, and advise the City promptly of any changes in business operations.

- (1) Recipient shall immediately notify the City if it intends to close the business. The City reserves the right to require certain information upon closure of any business.

Loan servicing files will be maintained in a secure place within the Finance Department, with access limited to authorized personnel. The City's legal counsel shall be consulted in regard to compliance with state and municipal open records laws.

C. Default

Any default in any term or condition of the Loan Agreement shall be a default entitling the City to issue a Notice of Default to the loan recipient which shall specify the following:

- (a) The specific nature of the default.
- (b) The action required to cure the default.
- (c) A date, not less than thirty (30) days from the date of notice, by which the default must be cured to avoid action by the City to recover the loan funds invested.
- (d) Any penalties incurred as a result of the default.

In the event the default is not cured by the date specified in the Notice of Default, the City may take action to recover the funds loaned to the business through the program, plus any interest. The City Manager may, in his sole discretion, offer to negotiate a repayment schedule with the loan recipient, pursuant to which monthly loan payments will be calculated to amortize the unforgiven remainder of the original loan amount.

- (1) Reinstatement of the loan.
 - a. The City may rescind the acceleration of maturity after full payment is due and reinstate the loan only if the borrower brings the loan current, executes a modification agreement, or agrees to an acceptable repayment plan.
- (2) Notice to credit reporting agency.
 - a. If the loan maturity is accelerated and the loan is not reinstated, the City shall report the default to an appropriate credit reporting agency.

D. Program Report

A separate accounting record for each loan shall be kept to account for all funds loaned. The Stand Strong Business Recovery Loan Program Fund account shall be reviewed following the end of the program on December 31, 2020 and a report will be presented to the City Council regarding the use of program funds.