

## **LOCAL DEVELOPMENT CORPORATION OF THE CITY OF WATERTOWN LENDING/COLLECTION POLICY AND PROCEDURES**

### **1. GOAL**

The Local Development Corporation of the City of Watertown, New York's goals are to enhance employment opportunity and/or stimulate community revitalization by assisting in financing where need is demonstrated.

### **2. GENERAL STATEMENT**

The Local Development Corporation of the City of Watertown (LDC) functions as a lending institution, making loans for real estate and machinery and equipment to all qualified applicants on an equal basis. Additionally, the LDC may participate in working capital and leasehold improvement financing as deemed necessary to meet project-financing gaps. All loan procedures will be reviewed on an annual basis to insure that all rules and regulations are being complied with and that no application shall suffer any form of discrimination. Any bona fide registered business in New York State has the right to file a written loan application with the LDC.

The LDC will review applications for need of LDC funds, appropriateness of project and ability of the applicant to attain the stated goals.

The Board of Director, at its discretion, has the ability to approve exceptions to rate, terms, collateral or use of proceeds as it deems appropriate, in order to enhance the agencies ability to stimulate community revitalization and help spur job creation.

### **3. LENDING AREA**

- A. The loans will be made to businesses and industries situated in or having a significant positive economic impact on the Watertown area.
- B. For projects located outside the City of Watertown, the Borrower must submit a written statement detailing the economic benefits of the project for the City (e.g. jobs, taxes, etc.). **Any commitment by the LDC for a project located outside the corporate limits of the City of Watertown will be made subject to a majority approval of the City Council.** The City of Watertown is requested to advise the LDC of the Council's decision and the reasons therefore. The City Council is not being asked to make a determination with respect to the credit worthiness or terms and

conditions of the loan as provided by the loan policies herein, but rather to focus on the positive economic impact to the City.

- C. The Board of Directors from time to time, at its own discretion, may set specific parameters to enhance economic development initiatives within the community. These will be in the form of addenda attached to this policy.

#### **4. TYPES OF LOANS**

##### **A. General**

The LDC may lend funds in connection with the construction, acquisition, rehabilitation or improvement of real property, and gap working capital and leasehold improvements needs. The LDC may also participate in financing the purchase of machinery and equipment to be used and located within the area. Both types of loans must meet the following criteria:

1. There must be a demonstrated need for financing from the Local Development Corporation, which can be in the form of one of the following:
  - a. financing Gap – sufficient funds cannot be obtained from other sources to complete the project without the LDC’s assistance (needs to include evidence that LDC assistance is needed to subsidize, encourage or leverage other sources); or
  - b. feasibility – the project cannot go forward on the basis of terms offered by private and/or public funding sources; or
  - c. attraction/retention – the LDC loan will induce a company to move into the Watertown area, or prevent a company from leaving the area or from reducing employment (borrower must explain what other options the company is considering and why; provide evidence of economic incentives from competing areas, if available).
3. There must be a positive economic benefit to the City of Watertown as defined by:
  - a. job creation;
  - b. job retention;
  - c. community redevelopment;
  - d. community enhancement; or

e. elimination of blight.

B. Retail

In addition to the above criteria, retail projects must;

1. present evidence that proposed financing will not have a significant negative effect on other retail businesses in the community;
2. present evidence that proposed financing will result in a net increase in economic benefits (jobs, removal of blight, etc.) for the City; and
3. submit marketing plan/study.

C. Refinancing

The LDC may also participate in refinancing of a business. The Borrower must:

1. submit evidence of inability to secure suitable refinancing through other private lending institutions; and
2. submit update written business plan (including marketing study).

D. Professional Office and Housing Projects

1. The LDC may participate in the financing of professional office or housing projects that are deemed by the Board of Directors to have substantial economic impact or stimulates community revitalization.

**5. MAXIMUM AMOUNTS OF LOANS**

- A. As a general guideline, if the application is based solely on job creation, the LDC funds will be disbursed at an approximate ratio of \$20,000.00 per full-time (or equivalent) job created or retained. All jobs created are encouraged to list with the Jefferson County Employment and Training Office and with the New York State Department of Labor.

Failure to meet the job creation or job retention goals as stated in the application may mean the Borrower will be penalized by imposing a higher interest rate as stated in the loan documents or, at the option of the

Board, could create a default and result in such other or further remedies/penalties as the Board may deem appropriate.

- B. With every application, maximum loan amounts are limited to 40% of project costs or 10% of total LDC assets, whichever is lower.

## **6. EQUITY CONTRIBUTION OF BORROWER**

A minimum equity contribution of 10% of the total eligible project costs is required of the Borrower. The equity contribution required for a start-up business may be greater, depending upon the circumstances.

## **7. INTEREST RATES AND REPAYMENT TERMS**

Interest rates on the LDC loans will be determined by the Board of Directors. The interest rates will normally be on fixed rate basis. Repayment terms for real estate loans range from 10 to 20 years; repayment terms for machinery and equipment purchases range from 7 to 10 years.

## **8. DISBURSEMENTS OF LOANS**

Real Estate Loans – disbursements will be made on a take-out on completion basis. The LDC will require all proper releases, Certificate of Occupancy, etc., prior to advancement of funds.

Machinery & Equipment Loans – disbursements will be made to the Borrower upon delivery, installation and satisfactory operation of the equipment.

## **9. CLOSING FEES**

The Borrower shall pay all costs connected with the issuance of the loan.

A fee of 1% of the requested loan amount will be charged at closing.

## **10. DOCUMENTS**

The LDC will require the completed written application, as well as all legal documents necessary to perfect its security interest as required by its attorneys and to fully comply with all Federal regulations.

## **11. RESPONSIBILITY OF ELIGIBILITY AND LOAN REVIEW COMMITTEE**

The President will appoint the two banking representatives of the Board and a third member to serve on this Committee for the purpose of initially determining the eligibility of a prospective loan and analysis of the application for presentation to the Board. Upon receipt of the application, the members will review the completed application and provide a written summary to the Board at the next scheduled meeting. Completed applications must be submitted to the Eligibility and Loan Review Committee at least thirty (30) days in advance of the meeting to insure its inclusion on the agenda.

## **12. RESPONSIBILITY OF BOARD OF DIRECTORS**

The Board will maintain an active Eligibility and Loan Review Committee. The Board will review all loan requests in addition to the recommendations of the Committee at their regular scheduled meetings. The Executive Director will prepare a letter advising the Borrower of the Board's decision. If approved, the letter, among other things, will set forth the general and specific terms and conditions under which the LDC is willing to grant the loan; such as the interest rate, repayment period, expected collateral, etc. The letter will also advise the proposed Borrower that he will be obligated to pay all costs incurred by the LDC in connection with his application, even if the loan does not close as expected. The letter must include an expiration date allowing a reasonable time for the proposed Borrower to meet the terms and conditions of the loan. The Executive Director will present to the Board a written report of all delinquent accounts for the Board's review.

## **13. COLLECTION PROCEDURE**

This is the general policy information and is always subject to the Executive Director's recommendation on a loan by loan basis. It does not alter any of the terms and conditions of any loan documents.

The LDC will administer the following collection policy:

### **A. 15 days delinquent**

When a loan is 15 days delinquent, a late payment notice is sent by the staff to the Borrower.

### **B. 30 days delinquent**

When a loan is 30 days delinquent, a telephone call is made to the Borrower from the LDC staff in order to define the reason for the delinquency. The regular monthly billing is sent to the Borrower, which

will include the two months payment due plus a late fee, as stated in the Note.

C. 45 days delinquent

When a loan is 45 days delinquent, a letter is sent to the Borrower from the LDC staff indicating the account is now over 30 days due. The letter should specify the amount due and that payment must arrive in the LDC office no later than 10 days from the date of the letter. A follow-up telephone call is made to the Borrower from the staff of the LDC indicating same.

D. 60 days delinquent

When a loan is 60 days delinquent, a letter is sent to the Borrower from the LDC staff indicating the account is in default with payments 60 days past due. The letter should indicate that a meeting with the LDC staff is necessary to set up a schedule to correct the default, which will be presented to the Board of Directors for consideration. Further, the Borrower must be advised that if a repayment schedule is not adhered to, the account will be turned over to the LDC's attorneys with instructions to begin legal proceedings to collect the full amount of the debt.

**14. REPORTS TO BE KEPT**

The original loan documents should be kept in the Office of the LDC. In addition to these, the following reports are to be kept and updated as needed:

1. current financial reports – updated annually
2. evidence of insurance ( includes hazard insurance and flood insurance, if required by the loan documents) – updated annually
3. UCC-1 Financing Statements – updated every five years
4. Real Estate Tax – verify tax obligations have been met (needed at time of closing an annually)
5. Annual Employment Report

It is the responsibility of the LDC staff to receive and update the above documents. Once received, they are to be reviewed, summarized and analyzed for future trends. Any irregularities or questionable trends would be brought to the attention of the Eligibility and Loan Review Committee for further consideration.

**15. ENVIRONMENTAL RISK CONSIDERATION**

To reduce the LDC's potential environmental liability the LDC will require an environmental audit prior to closing on loans secured by real estate. The audit shall be paid for by the applicant, conducted by an outside consultant and reviewed by the Eligibility and Loan Review Committee. Any environmental risk factors resulting from this report must be fully disclosed to the Board of Directors before the loan is closed. Situations such as structures built over a sanitary landfill or a municipal waste disposal site, and the presence of asbestos, spills, spoil or ground water contamination are examples of a reasonable basis for immediate declination of the application.

## **16. APPRAISALS**

The loan amount cannot exceed the appraisal of real estate or equipment. All loan requests of any type will require a current appraisal report. Each appraisal will be completed by a qualified and approved appraiser and be an estimate of the current market value. All loan requests that involve the purchase of machinery or equipment must include the invoice showing the value of the machinery and equipment at the time the loan is made. The Eligibility and Loan Review Committee prior to approval of the loan will review such reports.

## **17. SPECIFIC VALUATION RESERVE**

Should a loan become past due for a period of ninety (90) days or more, the LDC will review the account and set up a specific valuation reserve, if deemed necessary, in an amount of 50% of the outstanding principal balance. The amount of the Reserve will be funded by transferring 25% of the LDC's monthly net income to the reserve account. Within six months thereafter, the LDC will obtain a current market value of the collateral and adjust its reserve to a level to include the amount of the loan that exceeds the current value after consideration for prior liens. Upon full funding of the reserve on this basis, the Board will review the status and potential for recovering the unreserved portion. Depending upon the circumstances involved, the Board may continue to set aside income until the loan amount is fully reserved. The amount reserved will be charged as a nonrecurring expense on the books of the LDC. In the event of foreclosure and/or repossession, the LDC will advance funds necessary to protect its security interest and comply with the default rights allowed by its Security Agreement for payment of real estate taxes, insurance premiums, legal fees, disbursements...etc. These disbursements will be maintained in an asset account of the LDC until the result of the sale of the asset is known. In the event the costs are not recovered from the proceeds of the sale, they will be charged against the expenses of the LDC. In addition, if any portion of the principal balance not previously reserved against is not recovered at the time of sale, the excess will be charged as a nonrecurring expense.

If the LDC should become the owner of the collateral by means of the default proceedings, the reserve shall be charged against the loan balance to reduce the book value of the asset to an amount equal to the then current market value.

Based on this formula, should a specific valuation reserve be established and the borrower successfully corrects the past due status of the obligation, the LDC may recover the amount of the specific reserve provided:

1. The loan performs as originally agreed for six consecutive months;
2. The Board of the LDC is satisfied that the original problem causing the delinquency has been corrected;
3. The Borrower can show a profitable operation for the six-month period of satisfactory performance set forth in No. 1 above.
4. Notwithstanding 1, 2, & 3 above and in the event the collateral value is less than the loan balance, the amount in excess of the value will continue to be reserved until the loan performs for 12 consecutive months and profitability extends to 12 months.

Revised and Approved on December 19, 2002

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