

# **DETROIT LAKES DEVELOPMENT AUTHORITY LOAN PROGRAM GUIDELINES**

## **General Information**

The Detroit Lakes Loan Fund, PUC Funds and the Detroit Lakes Development Authority Revolving Loan Funds are low interest loan funds administered by the Detroit Lakes Development Authority to encourage business growth, increase employment opportunities, and expand the local tax base. These Loan Programs have the following objectives:

1. To provide loans for new or expanding businesses that create or retain jobs for the community as a result of activities carried out for which the loan application is made (generally a minimum of one job created for each \$10,000 requested);
2. To assist new or existing industrial businesses to become established or expand;
3. To assist new or existing retail businesses to improve or expand;
4. To provide funds for economic development that will be leveraged against other funds (minimum threshold 1 to 1); and
5. To encourage improvements that will significantly increase the tax base of the community.
6. In order to make funding available to benefit the maximum number of applicants, loans will be limited to the minimum amount of funds necessary to complete financing of the applicant's project. The Development Authority shall determine the amount of each loan. Appraisals, bid quotes, contractor's estimates and such other documentation as may be appropriate and acceptable to the Authority shall be provided documenting the value of the collateral used to secure a loan.

## **Submission of Application**

Applicants are encouraged to discuss their proposal with the City's Community Development Director at an early state in the development of their project proposal. All applications shall be submitted to the Community Development office. After review and analysis by the Community Development Director, the application along with any appropriate additional information and his recommendation will be submitted to the Detroit Lakes Development Authority for action. The Development Authority shall specify the amount, terms and conditions of any loan or, if denied, shall state the reasons for denial of the application. A completed application and all documentation must be received at least 28 days prior to the Development Authority meeting where the loan will be considered.

The application is presented to the Development Authority at its next meeting for their review. The applicant does not need to attend this meeting, but has the right to attend.

If the Board has questions, the applicant will be invited to the next Development Authority Meeting.

## **Eligibility Requirements**

1. **Types of Projects Funded:**  
The Detroit Lakes Loan Fund makes loans for the start-up, expansion, or preservation businesses in Detroit Lakes. All projects must create new employment opportunities in Detroit Lakes, or retain jobs, which would otherwise be lost without loan fund support.
2. **Eligible Borrowers:**  
Individuals, Partnerships, Limited Partnerships, and Corporations engaged in for profit or not for profit business activities which will retain or increase employment and expands the City's tax base.
3. **Business Sectors Served:**  
Projects in the manufacturing and agri-processing sectors will be given priority. Service and retail business will be given consideration, but will not be a priority.
4. **Eligible Activities:**  
Loans may be made to eligible businesses for land, buildings, additions, alternations, machinery, equipment and inventory. Generally loan funds may not be used for debt refinancing or transfer of business ownership. Generally projects must show a benefit to the public interest.
5. **Collateral:**  
The Detroit Lakes Loan Fund is willing to accept positions on collateral subordinate to private lenders.

## **Loan Program Terms**

1. **Interest Rates:**  
Interest rates will be negotiated, based on current market rates and the term of the loan. Interest rate will be reviewed and adjusted on an annual basis.
2. **Term and Amortization:**  
The term for loans will vary depending on the life of the assets used as collateral. Occasionally the Detroit Lakes Loan Fund will agree to amortize a loan over a longer period than its term. When this is done, a balloon payment of the remaining principal will be due at the end of the loan's term. Any call provisions will be the same as the primary lender. Loan closing must take place within 90 days of approval or applicant must re-apply for the loan.
3. **Loan Size:**  
The loan amounts will be determined on a project-by-project basis based on the number of jobs created, the amount of funds leveraged from other sources, the increase in market value of parcels improved by the project, and the amount needed to fill any financial gaps.

4. **Closing Costs:**

Successful loan applicants will be charged for the following:

- a. Cost of preparing closing documents;
- b. Cost of reviewing and recording security positions on collateral;
- c. Cost for appraisal of collateral, where necessary; and
- d. A loan origination fee equal to 1% of the loan may be charged if the Authority desires so.

**Applicant Requirements**

All applicants shall generally meet the following minimum requirements in order to be considered for a loan:

1. Positive net worth;
2. Debt to equity ratio of \$4.00 to \$1.00 or less, including all funds being borrowed for the project being financed with the loan proceeds;
3. Sufficient working capital to meet current and projected needs;
4. Sufficient cash flow to meet all operating and non-operating costs, including repayment of all funds borrowed for the projects being financed with the loan proceeds; and
5. Personal guarantees for repayment of the loan from all persons owning more than 20% of the business being benefited. In some cases life insurance restrictively endorsed to the lender is required.

Financial information submitted by the applicants will be analyzed to determine if the applicant meets these requirements. Such analysis shall include a comparison to the applicant's financial history and projections with industry standards to insure that such information is accurate and that the applicant has demonstrated the ability to meet such projections.

**CONDITIONS FOR RECEIVING A DETROIT LAKES REVOLVING LOAN**

**Inspection by the Development Authority**

All applicants receiving a loan, as part of any loan agreement with the Development Authority, will be required to permit them or their designee to inspect and/or review their business and its operations from time to time for purpose of protecting, the loan made as a result of this application. Any safeguards granted by the applicant to the Development Authority will be set forth in writing.

**Electric Power Supply Agreement**

As a condition of receiving a loan from the Detroit Lakes Development Authority, borrowers are required to sign a Public Power Supply Agreement with Detroit Lakes Public Utilities

**Required Loan Documentation**

The following loan documents shall be used, as appropriate, for securing loans approved by the Authority:

1. Letter of Commitment outlining the terms and conditions of the loan;
2. A note formally obligating the borrower to the debt and detailing the amount, interest rate, repayment terms of the loan and setting forth the Authority's remedies with respect to the collateral securing the loan;
3. Mortgage providing a description of all real property securing a loan and setting for the Authority's security interest and rights with regard to such property;
4. Insurance setting forth all liens against any real property securing the loan and assuring clear title to the property once the liens are satisfied;
5. General Security Agreement and UCC filing obligating the borrower to repay the loan, describing the collateral and notifying other creditors of the Authority's security interest;
6. Personal guarantees from principal owners of the business making them liable for repayment of the loan;
7. Corporate guarantees from parent companies of other companies whom may be principal beneficiaries of the loan making them liable for repayment;
8. Subordination Agreement setting forth the terms and conditions for repayment of any existing or future sub-ordinated loans;
9. Due on relocation clause requiring repayment of the loan should the business be moved from Detroit Lakes;
10. Life insurance policy and Assessment Agreement assigning the proceeds of the policy repayment of the loan;
11. Hazard insurance policy and Assignment Agreement assigning the proceeds of fire, theft, and flood insurances policies to repayment of the loan; and
12. Hazardous waste protection guarantee providing that any real property securing the loan is free of hazardous waste and protecting the Authority from liability for any clean-up costs.

All appropriate documentation shall be completed by City Administrative personnel or a third party, such as a title insurance company.

- **Notice To Applicants**

If you have any questions concerning the attached application or if you need assistance in completing the application, please contact the City of Detroit Lakes, Community Development Office at (218) 846-7125.

### **LOAN RENEWAL POLICY**

Please be advised that it is the policy of the Detroit Lakes Development Authority to require payment in full of any balloon payments at the time they are due.

It is not the intent of the Authority to renegotiate the loan or payments, therefore, the Company should seek conventional bank financing well in advance of any balloon payment due on any loans with the Detroit Lakes Development Authority.

**Detroit Lake Development Authority**

**Loan Application**

**Community Development Department**

**Phone (218) 846-7125**



**Send To: CITY OF DETROIT LAKES, MINNESOTA  
COMMUNITY DEVELOPMENT DEPARTMENT  
1025 ROOSEVELT AVENUE, PO BOX 647  
DETROIT LAKES, MN 56502**

**LOAN APPLICATION:**

**A. Business Description:**

1. Name of Business \_\_\_\_\_
2. Address \_\_\_\_\_
3. City/State \_\_\_\_\_ Zip \_\_\_\_\_
4. Contact Person \_\_\_\_\_ Telephone No. \_\_\_\_\_
5. Social Security Number \_\_\_\_\_ (if sole proprietorship)  
Type of Sole
6. Business \_\_\_\_\_ Proprietorship \_\_\_\_\_ Corporation \_\_\_\_\_ Partnership
7. Briefly describe the production services of the business: (include sample or picture, if possible)  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
8. List names of all individuals with any ownership in the business:  
(Attach resumes, include manager's resume)  
\_\_\_\_\_  
\_\_\_\_\_
9. List any "silent partners" associated with the business, include name, address, and a description of their interest:  
\_\_\_\_\_  
\_\_\_\_\_

**B. Nature of the Loan Request:**

1. Total Project Cost: \$ \_\_\_\_\_
2. Amount of Revolving Loan Requested: \$ \_\_\_\_\_
3. Type of Project: \_\_\_\_\_ New Business \_\_\_\_\_ Business Expansion
4. Employment Information \_\_\_\_\_ Number of Existing Jobs  
\_\_\_\_\_ Number of Jobs Created \_\_\_\_\_ Number of Jobs Retained
5. Estimated increase to the tax base of the City of Detroit Lakes: \_\_\_\_\_

6. Brief description of the project for which applicant is seeking funding:

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**C. Job Creation Information:**

1. List the number of employees to be employed at the business for which the loan is applied for, starting with the past two years and projecting the next three.

|            | Full Time | Part Time | Total |
|------------|-----------|-----------|-------|
| Last Year  | _____     | _____     | _____ |
| Current    | _____     | _____     | _____ |
| Next Year  | _____     | _____     | _____ |
| Year Two   | _____     | _____     | _____ |
| Year Three | _____     | _____     | _____ |

|                      |               |                |                    |
|----------------------|---------------|----------------|--------------------|
| Management Positions | Current _____ | Proposed _____ | Salary Range _____ |
| Labor Positions      | _____         | _____          | Salary Range _____ |

2. Briefly describe how you calculated the above figures:

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**D. Financing Plan:**

1. Specify the type of financing gap that exists (inadequate equity, inadequate private lender, financial or inability to pay market rates) and explain in detail why this causes a need to apply for Detroit Lakes Revolving Loan:

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2. Purpose and source of funds for total project (indicated in Section B)

| Purpose For Which Funds Will Be Used | DLDA Loan | Bank(s)  | Bank(s)  | Equity   | (Specify) Other | Total    |
|--------------------------------------|-----------|----------|----------|----------|-----------------|----------|
| Property Acquisition                 | \$ _____  | \$ _____ | \$ _____ | \$ _____ | \$ _____        | \$ _____ |
| Site Improvement                     | \$ _____  | \$ _____ | \$ _____ | \$ _____ | \$ _____        | \$ _____ |
| Building Renovation                  | \$ _____  | \$ _____ | \$ _____ | \$ _____ | \$ _____        | \$ _____ |
| New Construction                     | \$ _____  | \$ _____ | \$ _____ | \$ _____ | \$ _____        | \$ _____ |
| Machinery & Equip.                   | \$ _____  | \$ _____ | \$ _____ | \$ _____ | \$ _____        | \$ _____ |
| Working Capital                      | \$ _____  | \$ _____ | \$ _____ | \$ _____ | \$ _____        | \$ _____ |
| Inventory                            | \$ _____  | \$ _____ | \$ _____ | \$ _____ | \$ _____        | \$ _____ |
| Debt Refinancing                     | \$ _____  | \$ _____ | \$ _____ | \$ _____ | \$ _____        | \$ _____ |
| Other (Specify)                      | \$ _____  | \$ _____ | \$ _____ | \$ _____ | \$ _____        | \$ _____ |
|                                      | \$ _____  | \$ _____ | \$ _____ | \$ _____ | \$ _____        | \$ _____ |
| Other (Specify)                      | \$ _____  | \$ _____ | \$ _____ | \$ _____ | \$ _____        | \$ _____ |
|                                      | \$ _____  | \$ _____ | \$ _____ | \$ _____ | \$ _____        | \$ _____ |
| <b>TOTAL</b>                         | \$ _____  | \$ _____ | \$ _____ | \$ _____ | \$ _____        | \$ _____ |
| <b>TOTAL PROJECT COST</b>            |           |          |          |          | \$ _____        |          |

3. List the collateral and lien position you are offering to secure this loan:

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4. List the interest rate and repayment terms that you propose:  
 (Note: If you are requesting an interest rate that is less than prime you must demonstrate your need for reduced interest rate)

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5. Participating Lender \_\_\_\_\_

Contract Person \_\_\_\_\_ Telephone No. \_\_\_\_\_

Participating Lender \_\_\_\_\_

Contact Person \_\_\_\_\_ Telephone No. \_\_\_\_\_

**E. Bankruptcy:**

1. Have you, either as an individual or as a principal in a business, ever been bankrupt, petitioned for financial relief pursuant to a court-supervised insolvency proceeding, including court supervised receivership, within the past seven (7) years? \_\_\_\_\_ No \_\_\_\_\_ Yes
2. If yes, please explain the result or relief requested and obtained, including when and where received. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

I certify that the above information and the statements contained herein or attached hereto are an accurate statement of the financial condition of the business and its principals. I also certify the business is current on all of its federal and state taxes.

\_\_\_\_\_  
Authorized Signature Date

**F. Business Plan:**

Note: For assistance in preparing a business plan, you may wish to contact the Small Business Development Center (SBDC) at (218) 236-2289.

The narrative and financial documents for this business plan should be arranged, when possible, in the order listed below and attached to the application.

1. History of Business
  - a. Briefly describe the past operation of the business or the events leading to its creation.
2. Market Analysis & Strategy
  - a. Description of current buyers and target market (provide verification of purchase orders, contracts, and so on, which relate to reasons for the loan request)
  - b. Competition
  - c. Pricing
  - d. Distribution
  - e. Advertising
  - f. Sales Promotion
  - g. Industry Trends
3. Products
  - a. Description of product line
  - b. Proprietary position of patents, copyrights, legal and technical considerations
  - c. Comparison to competition
4. Manufacturing Process
  - a. Materials
  - b. Production Methods

5. Financial Projections
  - a. Monthly cash flow analysis for next twelve (12) months
  - b. Profit and loss statement: last three years and current year, and two-year projection
  - c. Balance sheet: last three years and current year, and two-year protection
6. Schedule of Business Debts
7. Statement of Collateral
  - a. A detailed list of all-collateral offered, its value, and security position by funding sources.
8. Resumes and Personal Financial Statements
  - a. Include resumes of all principals as well as current, dated, and signed personal financial statements on all principals with a significant interest in this business.
9. Commitment Letters
  - a. Include commitment letters from banks and others stating the terms and conditions of their participation.
10. Affiliates
  - a. Description of any affiliates or subsidiaries of business or principals assistance, as well as balance sheets and income statements for past two fiscal years on such affiliates or subsidiaries.
11. Appraisals/Proposed Lease/Purchase Options or Agreements
  - a. An independent appraisal will be required for any real estate which is a subject of the proposed financing or which is offered as a major source of collateral to secure the loan. Also, include copies of existing or proposed lease(s), purchase options or agreements, or other financial arrangements.
12. Partnership Certificate of Authorization, or Corporate Certificate of Authority and Incumbency
  - a. Include minutes of the corporate meeting adopting this certificate, where applicable, and name and address of legal counsel.

**G. Other Attachments**

1. Copy of last year's submitted business income tax statement.
2. Copy of last year's submitted personal income tax statement.
3. List of all persons (name, address and phone number) who assisted in any manner with the preparation of this application and other requested information.
4. List, including the name, date and amount of any pending or anticipated legal actions or claims against any applicant.
5. List, including the name, date and amount of any liens or judgments known to be filed by any party including any unit, agency, or department of local, state or federal government.
6. List any potential sources of income not stated in any other document.
7. Have you ever applied elsewhere for a loan or grant monies for this project? If so, explain.
8. List all insurance needs for the operation of your business. State what insurance you will be purchasing and from whom, if known.

## **Loan Renewal Policy**

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