**Section 120.115 CSBG Loan Programs**

a) CSBG Revolving Loan

1) CSBG funds are loaned through Grantees to an Illinois business in a separate but companion agreement to a conventional loan.

2) The CSBG loan represents no more than 49% of the total loan package (combined borrowing and equity).

3) The conventional loan is obtained from a licensed Illinois lending institution.

4) The benefiting local government and/or other public resources may be used in the project.

5) The CSBG loan term may not exceed 10 years but may be for a shorter term at the discretion of the Grantee.

6) CSBG Loan interest rate (Fixed-Flexible option)

A) When CSBG grant funds are used, the loan shall have a fixed interest rate of no more than Prime plus 4% (“Prime” as used in this subsection (a)(6) is the National Prime Interest Rate as published in the Wall Street Journal on the date the parties agree to the loan provisions).

B) When recaptured funds are used from a previous CSBG loan, the loan shall have a fixed rate of no more than Prime plus 4%.

7) The CSBG financing must be committed simultaneously or prior to the closing of other financing.

b) Hiring and Job Retention

1) Establishing a Pre-Loan Base Number of Employees – The Grantee shall have the right to review the borrower's employment records at the time of the loan closing to establish the pre-loan employment level in order to assure that no personnel cuts were made by the business in anticipation of the pending loan and its hiring requirements.

2) Hiring Requirements

1. Businesses accepting CSBG loan funds must hire at least one new full-time equivalency (minimum 37½ hour work week, averaged annually) CSBG eligible (in accordance with Section 120.120) employee for each $20,000 or any portion thereof of CSBG monies borrowed.

Example:

|  |  |
| --- | --- |
|  | Minimum |
| $1-$20,000 | 1 Job |
| $20,001-$40,000 | 2 Jobs |
| $40,001-$60,000 | 3 Jobs |

B) The Department will allow, based on presentation of written verifiable jobs (to be created) salary data submitted as part of its loan application, the Grantee to set the amount loaned per job at 75% of the entry level salary (which may include non-required benefits) for each job. (For example: an entry level salary of $50,000 would warrant lending of $37,500; a $60,000 entry salary would warrant lending of $45,000; a $10,000 entry salary would warrant lending of $7,500.) The Department will, upon request, consider the inclusion of fringe benefits (e.g., health insurance) in the salary calculation. (Any combination of subsections (b)(2)(A) and (B) is allowed.

C) If part-time employment is involved in the created jobs (under either subsection (b)(2)(A) or (B)), the full-time equivalency shall be no more than two employees making up one 37½ hour work week.

D) A hiring schedule must be a part of each loan agreement. The required hiring must be completed within the first 24 months of the loan, with at least 50% of the new employees hired in the first 12 month period. (For purposes of this hiring timeframe, the loan is considered consummated the date the borrower first receives the loan funds.)

E) The job positions for CSBG eligible clients created by the loan must be retained and filled by an eligible client for at least 24 months from the date the job was first created. Grantees should attempt to retain the availability of the loan-created jobs for CSBG eligible clients over the full loan term by maintaining professional contact with the business and tracking the jobs. Grantees, through their individual loan agreements, may negotiate more restrictive hiring requirements than stated in this subsection (b)(2).

c) Loan Fund Use

CSBG funds loaned may only be used to purchase machinery, equipment or inventory or to provide working capital. CSBG loans may not be used to purchase or improve real property (per Section 120.130 of this Part). This real property restriction does not apply to loans made with "Recaptured Loan Funds" (as described in subsection (i) of this Section).

d) Loan Security

Provisions (collateral) shall be made for first position on loan security. If first position is impossible because of the primary lender's claims, the Grantee should negotiate shared position with the private lender. Subordinate position for loan security should be the CSBG lender's last resort. Loan agreements shall contain precise listings and assignment of collateral established as security for the loan.

e) Loan Contract Provisions

Each Grantee's loan contract with a borrower shall clearly, and in detail, specify the following:

1) Employment Plan (consisting of mechanism to assure GSBG client eligibility, timeframes, job descriptions);

2) Payment Schedule;

3) Interest Rate Charged;

4) Late Payment Penalty Provision (optional);

5) Default Provisions.

A) Events of Default:

i) Payment Default: the Department shall consider a loan to be in default when payment arrearage reaches 90 days. Grantees may place more restrictive payment arrearage provisions in their loan contracts.

ii) Hiring Default: a loan shall be considered in default when the hiring provisions specified in this Part and in the loan agreement have not been met.

B) Default Remedies:

i) Payment Default: the loan will be called or renegotiated (loan renegotiation approval must be requested of the Department and will be approved when the Grantee's written request states that the renegotiation is the only practical means of loan recovery and/or will prevent bankruptcy and/or will prevent a loss of jobs to the local area).

ii) Hiring Default: an interest acceleration clause shall be a part of each loan contract. At a minimum the clause shall provide that after notice by the Grantee to the borrower that the hiring provisions have not been met, the interest rate for the loan will increase by 5 percentage points. Such increased rate shall remain in effect until hiring deficiencies have been corrected or the loan is called. (The Department will allow a one-time waiver per loan to the interest acceleration provision when the Grantee, in writing, shows that such acceleration will cause borrower bankruptcy and further loss of jobs and submits a proposed renegotiated hiring schedule that meets the CSBG job creation and hiring requirements through no more than a 24 month extension.) The Department will allow other equally punitive hiring noncompliance interdictions in grantees' loan contracts in lieu of the interest acceleration penalty. Such other interdictions may include (but are not limited to) fines, partial loan recall and pre-scheduled interim balloon payments;

6) Loan Security Provision (The Grantee shall perfect the loan security. For example: hold title to vehicles; secure a mortgage on pledged real property; require Uniform Commercial Code (U.C.C.) [810 ILCS 5] filing for pledged equipment, fixtures and inventory.);

7) Collateral Description;

8) Prepayment Provisions (optional);

9) Hiring Schedule;

10) Use of Loan (Machinery, Working Capital, Equipment);

11) Hiring Noncompliance Penalty;

12) Other documentation necessary to assure compliance (e.g., hiring reports);

13) Primary lender – amount; and

14) Wetland Certification Statement [20 ILCS 830].

f) Loan Payment Provisions

1) The interest rate for a recaptured principal or Category “D” CSBG loan shall have a fixed rate not to exceed Prime plus 4% (“Prime” as used in this Section is the National Prime Interest Rate as published in the Wall Street Journal on the date the parties agree to the loan provisions). Interest for loans made with repaid principal from previous CSBG loans may not exceed 7.5%.

2) Payment Schedules

A) Payments shall include principal and interest calculated in accordance with standard loan tables.

B) Loan payments shall not be deferred, unless written permission is given by the Department.

C) Grantees, through their individual loan agreements, shall impose a late payment penalty of not less than 5% of any monthly installment not received from the borrower within 15 days after the installment is due.

g) Micro-Loan Provisions

The Department has established, within the CSBG Loan Program, a Micro-Loan Program. This program is designed to enable Grantees to assist entrepreneurs in establishing and expanding business ventures. It provides for up to 100% CSBG lending, makes less demand for collateral and gives lending discretion to Grantees. To operate a CSBG Micro-Loan Program, a Grantee must have "preferred lender" status, approved loan criteria and an approved lending process.

1) Preferred Lender

To obtain preferred lender status, the Grantee must establish and maintain a loan review committee, with a minimum of 3 members who represent the financial and economic development professions and should include the legal profession. In lieu of legal profession membership, the Grantee must include in their micro-loan procedures a provision for legal review of loans. The committee may be attached to the Grantee's CSBG Board. The Department will, upon receipt of documentation, formally recognize preferred lender status.

2) Micro-Loan Criteria

A) Businesses eligible for micro-loans may be a proprietorship, partnership or corporation with no more than 5 employees. If proprietors, eligible borrowers must own all business assets; if partners or corporations, eligible borrowers must own more than 50% of the business assets.

B) Eligible borrowers must agree to create and fill a minimum of one job for a CSBG eligible client for the micro-loan lending. The job creation may include the borrower if he/she is CSBG eligible and will gain full-time employment through the borrowing.

C) The business must be located in the CSBG jurisdiction of the Grantee, and the borrowers must demonstrate that they cannot access the funds from other sources.

D) Maximum lending is $20,000 and may be entirely CSBG funded.

E) Recaptured principal will be used for all micro lending. (Exceptions to this provision must be requested in writing and approved in writing by the Department.)

F) The interest rate may not exceed Prime plus 4% and may be set lower at the discretion of the Grantee.

G) Lenders shall make every attempt to fully collateralize the micro-loan and the collateral should be secured.

H) The term of the loan may not exceed 10 years. The term of the loan should not exceed the life of the loan collateral.

I) A hiring schedule must be a part of each micro-loan agreement. The required hiring must be completed within the first 12 months of the loan.

J) Funds loaned may be used to purchase machinery, equipment and inventory, to provide working capital and to purchase or improve real property.

3) Micro-Loan Forms and Procedures

The Grantee must establish and maintain DCCA approved loan application forms, loan agreements, loan applicant requirements and screening process, loan review process and loan monitoring procedures.

4) Micro-Loan Administration

A) Since the Grantee must be a "preferred lender" in order to participate in the program, final decisions for lending are at the Grantee level.

B) Recaptured principal disbursed for micro-loans must be so noted in accounting records at the time of fund transfer.

C) Monitoring will be conducted by the Grantee.

D) Reporting will be on the CSBG Quarterly Loan Program Status Report (Hiring and Financial), and the lending will be included in Recaptured Loans on the Reconciliation Form.

E) The file for a micro-loan shall consist of:

i) the application;

ii) committee approval;

iii) the loan agreement/contract;

iv) amortization schedule;

v) hiring schedule;

vi) monitoring information; and

vii) CSBG Loan Project Fact Sheet.

F) The micro-loan repaid principal must be maintained in the same account as all other CSBG Loan Program repaid principal.

h) Loan Approval Process for Loans Under Current Grants

1) All Grantee CSBG funded loans must be submitted to the Department for approval. The Department's review and determination to approve or disapprove the loan will be given in writing within 20 working days after receipt of a complete set of the loan documents. (Loans submitted for approval after November 15 run the risk of not being processed by the December 31 cut-off due to insufficient time to complete the review. Loans approved after the December 31 date will be obligated against new program funds effective January 1.)

2) The loan application documents to be submitted, and upon which the decision of the Department will be based, consist of:

A) The loan agreement containing all provisions in compliance with this Part.

B) Application documents:

i) History of the Company – a brief history of the business and past employment growth.

ii) Market Information – information on the company's products or services and identification of existing and potential major customers and competitors.

iii) Corporate Financial Statements – historical corporate financial statements for the past three years and interim statements dated no more than 90 days prior to application including: Profit and Loss Statements, Balance Sheets, Cash Flow Statements, and Disclosure of Contingent Liabilities.

iv) Three Year Projections – three year projections of the Profit and Loss Statement and Balance Sheet and a one year Monthly Cash Flow Projection.

v) Description of Inventory – a list of inventory to be purchased using CSBG funds.

vi) Description of Machinery and Equipment (if applicable) – major equipment or classes of equipment to be acquired with the CSBG loan funds, including model and serial numbers where possible; for acquisition of new machinery and equipment, attachments of reliable vendor cost estimates; for moving and installation costs, attachments of written estimates; for used machinery and equipment acquisition, an independent appraisal demonstrating that the fair market value is in line with the purchase price.

vii) Description of Working Capital (if applicable) – a detailed explanation of the need for and use of funds.

viii) Company Management – a listing of those people that are responsible for the management of the company, their positions, and percentages of ownership.

ix) Principals Resumes – a resume of each principal.

x) Personal Financial Statement – a personal financial statements for each principal owning more than 20% of the company.

xi) Letters of Commitment – commitment letters documenting all sources of leveraging; loans from financial institutions must have language indicating the loan amount, the specified term and interest, collateral, conditions attendant to the loan, and the fact that the loan is approved; any commitment to purchase a revenue bond must have an executed inducement resolution and the rates, terms, and conditions of approval by the buyer.

3) Financial Evaluation Component – The applicant's financial statements, including annual balance sheets and profit and loss statements for the past three years as well as the most recent 90 days; a three year projected balance sheet and profit and loss statement as well as a one year monthly cash flow statement will be reviewed through a standard credit analysis (as prescribed in the Business Credit Analysis Textbook, 1985, published by the National Development Council) that will determine the: liquidity and debt coverage for the project; ability of the company to manage debt; business trends and projected earnings. This data will be compared to similar data for companies in the same industry using "Robert Morris Associates Annual Statement Studies" (1990) if such industry is evaluated by this source. This standard credit analysis will determine the financial stability of the company. Determination of the loan approval will also be based on compliance with Section 9-4(a), (d), (e), and (f) of the Small Business Development Act [30 ILCS 750/9-4].

i) Loan Approval Process for Recaptured Loan Funds

1) All Grantee loans using repaid principal from previous CSBG loans (recaptured loan funds) must be submitted to the Department for approval.

2) The Grantee may, at its option, request the Department to review the complete loan application. When this request occurs, the documents upon which the Department will judge its approval or disapproval and the process for this determination will be in accordance with subsection (g) of this Section.

3) If the Grantee chooses to conduct its own loan review, the loan document to be submitted and upon which the decision of the Department will be based is the "Pre-Loan Closing Form" which includes the following information:

A) Grantee Agency name, address and date of submittal;

B) Name and address of borrowing business;

C) Loan amount;

D) Source of funds;

E) Loan period;

F) Interest rate;

G) Hiring schedule;

H) Loan use;

I) Collateral description and position;

J) Primary lender, amount, and term; and

K) Signature of submitting officials.

4) The approval or disapproval of the Department will be based on the loan period, interest rate, hiring schedule, loan use, collateral description and position, and primary lender amount being in compliance with this Part. A letter, with the Department's determination and signature, will be returned to the Grantee within 10 working days after receipt of a completed Pre-Loan Closing Form. (Loans submitted after November 15 run the risk of not being processed by the December 31 cut-off due to insufficient time to complete the review. Recaptured loans approved after the December 31 date will not prevent the declaration of "lapsed principal" and the demand for its return.)

j) Processing a Micro-Loan

1) All micro-loans are approved at the Grantee level.

2) Once the funds have been disbursed, a CSBG Loan Project Fact Sheet must be submitted to the Department. This will be the mechanism for advising the Department that action has taken place.

k) Loan Fund Recovery/Held Principal Limits/Disposition/Reversionary Right

1) Recovery

The repaid loan principal is considered by the Department to be a Community Services Block Grant-related asset, held in trust by the Grantee. The Grantee must place the repaid loan principal in a corporate revolving loan account to continue business assistance efforts in compliance with this Part. This continuation requirement shall be perpetually binding on the Grantee, its successors and assignees until such time as the Department formally negotiates with the agency other CSBG related uses for the recovered loan principal. The interest earned on the CSBG supported business loans is not required to be a part of the perpetuation of the loan program nor subject to the provisions of the Illinois Grant Funds Recovery Act [30 ILCS 705] and may be used for any corporate purpose.

2) Held Principal Limits

Recaptured principal amounts will be reported quarterly to the Department. The Grantee shall actively pursue new business start up or expansion loan opportunities for the recaptured principal and maintain a written record of such efforts, which the Department may review, upon request. The grantee is allowed to hold the greater of $20,000 or 20% of the total repaid principal in its CSBG loan program portfolio. In its review of 4th quarter loan reports, the Department will determine if the grantee is holding excess repaid principal (as of the end of the calendar year), excluding any balloon loan payments, and declare the excess “lapsed principal”. Additionally, the Department will impose a penalty on Grantees that do not reduce their repaid principal, through lending or approved wavered use, by at least 25% over a two-year period. At the end of the second year and each subsequent two-year period in which the 25% reduction is not met, the Department will declare the balance of the 25% as lapsed principal. However, the Department will allow the Grantee to maintain the “floor” level ($20,000) repaid principal without lapse declaration. The Department will require, by written notice, lapsed principal to be reduced to these stated limits through a grant fund transfer.

3) Disposition

The Grantee may not sell, transfer or in any way dispose of the CSBG funded loans without DCCA's written approval.

4) Reversionary Right

If Grantee funding terminates (as specified in Section 120.55 of this Part) the Grantee's repaid principal loan fund balance and all current loans shall revert to the Department for transfer to the successor (Section 120.60 of this Part) agency.

5) Loan Settlement

In the event of a loan settlement due to bankruptcy or other closing, the cash settlement shall be applied 100% to principal after expenses are paid. Expenses are defined as unplanned costs incurred as a result of the closing/bankruptcy (i.e., storage or attorney) and are not covered by the CSBG grant or earned interest.

l) Reporting/Recordkeeping/Monitoring

1) The Grantee is required to submit two reports to the Department for tracking purposes.

A) The CSBG Loan Project Fact Sheet is to be submitted immediately following the closing of the loan (loan agreement signed and funds disbursed to the borrowing business). If the loan agreement is amended (i.e., changing the term or interest rate), a revised CSBG Loan Project Fact Sheet shall be submitted.

B) Quarterly CSBG Loan Status Report (6 parts) – This 6 part report (on forms provided by the Department) is to be submitted as part of the CSBG Quarterly Report, due the 30th calendar day following the end of each calendar quarter. The report must include all loan projects that have been closed (loan agreement signed and funds disbursed to business) since the inception of the CSBG Loan Program.

2) Records – The Grantee is required to maintain a CSBG Loan Program file with separate sections for each loan. Each loan file shall contain the loan agreement that encompasses all elements specified in this Section, all correspondence relating to the loan, copies of all forms submitted to the Department, verification of loan payback and monitoring, and, if the loan is in default, documentation of efforts made to return the loan to compliance or to call the loan.

3) Monitoring

A) The Grantee agency is responsible for monitoring the following provisions of each CSBG loan (including loans made with repaid loan principal):

i) hiring schedule compliance, including CSBG eligibility verification;

ii) replacement of employees;

iii) use of loan monies

iv) loan repayment; and

v) Wetland Act compliance.

B) The Department's program monitoring and annual auditing will include verification of the Grantee's report on the status of each consummated loan.

m) Carry-over of Loan Program Funds – At least 50% of the grantee’s earmarked (in the grant agreement) loan program funds must be obligated, with a Department approval letter, by December 31 of the grant year. Obligated funds must be disbursed for loans no later than January 31 of the succeeding grant year. The remaining 50% or less of the earmarked loan funds shall be carried over to the succeeding year’s grant, through modification, and placed with the earmarked loan funds in the grant agreement. Any Grantee who has not obligated or disbursed at least 50% of its earmarked loan program funds by the respective December or January 31 cutoff dates shall have the remaining balance deobligated by the Department. All CSBG Grantee funding deobligated by the Department shall be returned to CAAs through a competitive or formula distribution process.

(Source: Amended at 27 Ill. Reg. 7986, effective April 28, 2003)