



## **MICRO BUSINESS LOAN PROGRAM**



## **GUIDELINES**

**CITY OF SALEM  
URBAN DEVELOPMENT DEPARTMENT  
350 COMMERCIAL STREET NE  
SALEM, OR 97301**

## **CITY OF SALEM MICRO BUSINESS LOAN PROGRAM**

### **PROGRAM DESCRIPTION**

The City of Salem Micro Business Loan Program is designed to assist entrepreneurs and small business owners within the City of Salem to access small loans and gap financing to ensure that those businesses start, grow, remain sustainable, and succeed. Funds for the loan program are assessed from the City's allocation of Community Development Block Grants (CDBG) program to assist persons owning or developing a microenterprise. A microenterprise is defined as a commercial enterprise that has five or fewer employees, one or more of whom owns the enterprise.

The City of Salem Urban Development Department will provide up to \$10,000 in micro loans to qualifying entrepreneurs, microenterprise startups, and small business owners within the Salem City limits. The Micro Business Loan Program targets businesses owned by low- and moderate-income individuals, women-owned business, and businesses owned by minorities. Businesses located within the City's designated Neighborhood Revitalization Strategy Area (NRSA) will be given priority in this loan program.

The borrower and the business must meet the minimum requirement as outlined below. Additional requirements apply. Eligible businesses are agriculture, construction, retail, manufacturing, and dining.

### **ELIGIBILITY**

Eligible business must be located within the Salem City limits. Applicants may be start-ups or existing business. Eligible projects must demonstrate a need for the City of Salem Micro Business Loan financing. Generally such need arises from the inability to secure adequate financing from conventional lenders due to insufficient loan to value, insufficient cash flow, low-income status, and/or start-up nature of business project.

#### **Eligible Borrower**

1. Business owner must have income at or below 80% of the area median family income or employ people that are 80% or below median family income.
2. Loan applicants must be current clients or graduates of an approved micro enterprise or business training program. Graduates must have completed a business training course no longer than 36 months from the date of submitting an application.
  - a. If applicant did not complete the approved program or did not receive a certificate, an efficiency of business justification must be provided.
3. Must be the business owner and have 30% collateral as applicable in the business.
4. Start-ups and existing businesses must provide an approved business plan from a business training or microenterprise training program.

### **Eligible Business**

1. Located within the Salem City limits.
2. Business with five or fewer employees, one or more of who is the business owner.
3. Businesses within the designated Neighborhood Revitalization Strategy Area (NRSA) will be given priority.
4. Have at least three (3) years complete financial statements of the business. Microenterprise start-ups do not have to meet this requirement.

### **Eligible Use of Funds**

Except for the purchase of land, major rehabilitation of structures, demolition of structures, and new constructions, all bona fide costs associated with the business are eligible for funding. Eligible uses of the Micro Business Loan funds include;

1. Start-up costs
2. Working capital
3. Equipment purchase
4. Machinery

### **PROGRAM TERMS**

The terms of the Micro Business Loan Program are intended to provide additional flexibility over conventional lending programs to accommodate and adapt to the changing needs of local businesses. This flexibility is not intended to replace market lending, but to assist disadvantaged businesses in securing gap financing to sustain their enterprises.

#### **1. Loan Amount**

The loan amount is determined by availability of funds and the job creation impact of the project funded. Loan amount per business will range from \$2,000 to a maximum of \$10,000. Applications for loans outside the range will be reviewed on case by case basis.

#### **2. Collateral**

Security will be required, as necessary, to adequately collateralize the loan. Security will usually consist of liens against real property and/or business personal property, personal guarantees of all principals who hold more than 20% ownership interest, and may include personal assets of the business owner.

#### **3. Loan Term**

Loan repayment terms are based on individual projects needs. Terms are between three (3) and five (5) years. There will be no penalties for early repayment of the loan.

#### 4. Interest Rates

Amortized loans will have a 5% fixed interest rate at the time of closing and will remain fixed for the term of the loan.

#### 5. Fees

Applicants will be charged a \$65 non-refundable application fee at the time of the application and a minimum \$25 credit report fee.

### **PROJECT PREFERENCE CRITERIA**

Projects selected for funding must meet the goals and objectives of the CDBG Program as mentioned above under Program Description. Additionally, the following project preference criteria will be used to evaluate projects:

1. Matching Funds – Ratio of private and public funds invested in the project
2. Risk – Demonstration of market feasibility and loan repayment ability.
3. Timeliness – Ability to move forward with the project in a timely manner.

### **LOAN REVIEW COMMITTEE**

The Loan Review Committee (LRC) reviews all loan proposals prior to final approval. The six member advisory committee will serve to ensure that all loans meet the public purpose. The LRC will be comprised of two bankers, two representatives of microenterprise training programs, one stakeholder from the business community, and one Urban Development Department staff person. If members from the Committee have a personal or institutional financial interest in the proposed project, they will be required to declare a conflict of interest and abstain from participating in the project funding discussion.

### **APPLICATION PROCESS**

The processing time for a complete application is three (3) to five (5) weeks. The following is a summary of the steps during the review process;

1. Eligible applicants meet with the approved microenterprise training program staff to discuss requirements, credit criteria, and other application requirements (including review of applications and other required documents necessary for credit analysis).
2. Applicant(s) submit formal application (including a business plan and other information regarding project and/or business), a \$65 non-refundable application fee and a \$25 non-refundable credit report fee.
3. City Staff review application.
4. Applications are passed along for detailed evaluation, credit analysis, and risk assessments. Recommendations are made to the LRC.
5. Recommendations of the LRC are forwarded to the director of the Urban Development Department (or designated representative) for final approval or denial.
6. Notification is sent to applicants in the form of an offer or denial of the Micro Business Loan.

## **OTHER FEDERAL OR STATE REQUIREMENTS**

The Micro Business Loan Programs is funded through the Community Development Block Grant issued by the U.S Department of Housing and Urban Development (HUD). Loan recipients are bound to the following requirements.

Environmental Review: All loan requests are subject to federally required environmental and historic reviews by the City of Salem. These may vary in scope, depending on the use of loan proceeds.

Equal Opportunity: Projects funded by the loan programs are subject to the provisions of the Americans with Disabilities Act. Loan recipients must give equal consideration to all qualified job applicants without regard to race, color, religion, sex, or national origin.

Flood Plain Insurance: Loan recipients located in a floodplain must obtain adequate flood insurance coverage.

## **QUESTIONS**

Please contact Rena Peck, City of Salem Urban Development Department at (503) 588 6178 Ext 7546

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## **OTHER FEDERAL PROGRAM LOANS**

The City of Salem provides direct financial assistance to assist qualified persons with their housing needs through the following programs:

- Single Family Housing Rehabilitation Loan Program
- Critical Home Repair Loan Program

More information about these programs can be found at <http://www.cityofsalem.net/housingrehab>.