

# Memo

To: Ramsey EDA  
From: Mike Mulrooney, Economic Development Consultant  
CC: Patrick Brama  
Date: January 5, 2017  
Re: American Print & Digital Request for Exception to RLF Policy

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The City of Ramsey has been approached by *American Print & Digital* regarding the Ramsey Revolving Loan Fund. *American Print & Digital* is a local Ramsey business who is interested in purchasing an existing building located at 6320 US Highway10.

The company has been exploring financing options to acquire the property. The financing option of choice appears to be the SBA 504 Loan Program. The 504 Loan Program provides growing businesses with long-term, fixed-rate financing for major fixed assets such as land, buildings, machinery and equipment. A typical 504 project includes a loan secured with a senior lien from a private-sector lender covering up to 50 percent of the project cost, a loan secured with a junior lien from a Certified Development Company (backed by a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the cost, and an equity injection of at least 10 percent from the small business.

*American Print & Digital* has determined that while the SBA 504 program provides excellent financial leverage it will be difficult for them to inject 10% into the financing structure without potentially jeopardizing the company's working capital position. Therefore, additional financing options are being explored including the Ramsey Revolving Loan Fund to fill a perceived equity gap.

The current policy for the Ramsey Revolving Loan Fund also calls for an equity injection of 10% by the borrower. The company is requesting that the Ramsey EDA consider an "exception to policy" that would allow the Ramsey Revolving Loan Fund to inject 5% into the project financing structure over and above the SBA 504 Loan structure thereby achieving 95% leverage. This would amount to \$70,000 of

within a \$1.4 million project budget. The company has indicated to city staff that they have the ability to inject 5% equity into the project.

As Ramsey's Economic Development Consultant I have been asked to provide my perspective on whether the EDA should consider this request for an exception to policy or consider amending its RLF policy to allow for 5% minimum equity injections.

### **Policy Exceptions**

Ramsey's RLF loan Policy has been around for some time and has undergone many changes since it was originally written. Records indicate that no changes have been made since 2005. After reviewing the current policy I have found that it does not provide any provision for exceptions.

Exceptions to loan policies are common. Even fundamentally sound credits may need policy exceptions from time to time as such credits may not always conform to all aspects of a loan policy. There may be mitigating circumstances that would justify the loan's approval. Ideally the loan policy should establish processes and procedures for presenting nonconforming or exception loan requests received from creditworthy borrowers. Having the ability to approve exceptions for solid credits would give the EDA the ability to approve a loan request or propose an alternative structure.

Keep in mind that frequent approval of policy exceptions may indicate a loosening of credit underwriting criteria and/or a policy that is too restrictive. The underlying reasons behind frequently granted exceptions should be assessed and appropriate actions should be taken to ensure the policy is appropriately conveying the risk profile desired by the EDA and City Council.

In short, the EDA and/or City Council may want to consider amending the Ramsey RLF Policy to establish review and approval procedures for exception loans, including loans with loan-to-value percentages in excess of desired limits.

### **The American Print & Digital Request**

The type of request that American Print & Digital is making is not unusual. It is common for gap financing programs offered by cities involved in economic development to assist with increasing leverage beyond what other financing tools may provide. It is equally common and wise to require some level of equity on the part of any borrower to insure that risk is shared between all parties including the borrower as well as the lender. The art of economic development lending involves designing a plan that accomplishes the goals of the city while at the same time minimizing the risk.

In the absence of having a defined path for considering exceptions to the current loan policy I recommend that the EDA consider this request. **Keep in mind that this does not mean that you are providing credit approval. The City has not received a formal application and therefore no underwriting of the loan request has been initiated or completed.** The underwriting process may yield other options for meeting the needs of the borrower without approving an exception to current policy.

Final loan approval would be based on a review of information provided by the borrower, their primary lender and what underwriting uncovers during the loan review and underwriting process. Credit approval should not be considered until this work is completed.

Following receipt of all required information the current policy outlines the following path to credit approval.

1. All parties seeking revolving loan funds must file a pre-application. The pre-application requests basic information regarding the applicant, project scope, and project costs.
2. If the loan request appears to be eligible, a full revolving loan fund application is forwarded to the applicant.
3. Only complete applications are considered. Underwriting begins to determine the credit worthiness of the borrower when complete information is provided.
4. Following the underwriting process, the loan request is placed on the agenda for the EDA's next scheduled meeting.
5. The EDA bases its credit decision on the economic benefit to the City of Ramsey, credit underwriting typical to the lending community including the borrower's ability to repay the loan and the collateral offered to secure the loan, the number of jobs to be created or retained, wage rates of jobs created or retained, and increase in the local tax base.
6. The Ramsey EDA serves as the *loan review committee*. The policy states that final determination on all revolving loan applications rests with the City Council.

I hope you find this information helpful. I am available at any time to answer any questions you may have regarding my recommendation or the loan approval process.